Austria	Sch22	Indonesia	Rp3100	Oman	[illegible]
Bahrain	[illegible]	Iran	[illegible]	Philippines	[illegible]
Belgium	[illegible]	Israel	[illegible]	Portugal	[illegible]
Cyprus	[illegible]	Italy	[illegible]	Qatar	[illegible]
Denmark	[illegible]	Jordan	[illegible]	S.Arabia	[illegible]
Egypt	[illegible]	Kuwait	[illegible]	Singapore	[illegible]
Finland	[illegible]	Lebanon	[illegible]	Spain	[illegible]
France	[illegible]	Lux	[illegible]	Sweden	[illegible]
Germany	[illegible]	Malaysia	[illegible]	Switz	[illegible]
Greece	[illegible]	Morocco	[illegible]	Thailand	[illegible]
Hong Kong	[illegible]	Neth	[illegible]	Tunisia	[illegible]
Iceland	[illegible]	Nigeria	[illegible]	Turkey	[illegible]
India	[illegible]	Norway	[illegible]	UAE	[illegible]

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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FRANCE
Leaving the Louvre for the Tub
Page 3

World News

Sikhs kill 25 Hindus in Punjab massacre

Sikh extremists shot dead 25 Hindu members of a right-wing revivalist group at Moga, in the Punjab, and then threw bombs that killed two policemen helping the wounded.

The Hindus were performing martial exercises in a public park when Sikh extremists, armed with automatic weapons, drove up in a van.

An around-the-clock curfew was imposed on the town. Page 16

Four lead Hungary

Hungary's Communist Party avoided an open split by expanding the leadership into a four-man presidency headed by economic reformer Rezsö Nyers, and diluting the powers of the embattled general secretary Karoly Grosz. Page 3

US reform package

The US is preparing a series of measures to support political and economic reform in Poland and Hungary. President Bush is to visit those countries in two weeks' time. Page 6

Polish protests

Anti-communists marched in three Polish cities in new protests against communist leader General Wojciech Jaruzelski becoming president. Page 3

Israelis shoot Arab

Israeli soldiers shot dead a Palestinian man and wounded two others in the Gaza Strip after masked assailants wielding hatchets and knives tried to ambush a military patrol. Nine Palestinians and an Israeli soldier were injured in other confrontations.

Sri Lankan MP killed

A Sri Lankan MP was shot dead by three men disguised as soldiers when he was talking to constituents.

LDP defeat

Japan's scandal-rocked ruling Liberal Democratic Party received a sharp slap in the face as voters in the rural Niigata prefecture gave the Japan Socialist Party (JSP) an easy victory in a by-election for a seat in the upper house of the Diet. Page 2

Afghan appointment

Afghan President Najibullah has appointed former political foe Mahmoud Baryalai as First Deputy Prime Minister.

Refugees in France

Twenty-seven Vietnamese asked for asylum in France after being picked up in the South China Sea by a Swedish freighter.

Iran N-plan

Iranian Prime Minister Hussein Musavi said Iran plans to build nuclear reactors "for peaceful purposes" with technological help from foreign powers.

Wimbledon TV 'safe'

Broadcasting unions, in dispute with the BBC over pay, said it was virtually certain that they would not interfere with the broadcasting of tennis from Wimbledon, where the championships begin today. Page 8

Drug dealers hanged

Iran hanged 14 drug dealers, bringing the number of drug traffickers executed in the Islamic republic this year to 661. It said 50,000 addicts would be sent to hard labour.

Canadian scandal

A key adviser to Mr David Peterson, Ontario's Liberal premier, has been forced to resign, as a damaging scandal over illicit political contributions gathers momentum. Page 6

Race yacht shot at

A catamaran competing in the Round-Britain race, crewed by Mark Gatehouse and Andrew Ball, was shot at by a trawler skipper off Crosshaven, southern Ireland, after it had fouled fishing nets.

11 die in Colombia

Eleven people including two city councilmen and seven leftist guerrillas were killed and two banks were dynamited in a weekend of political violence in Colombia.

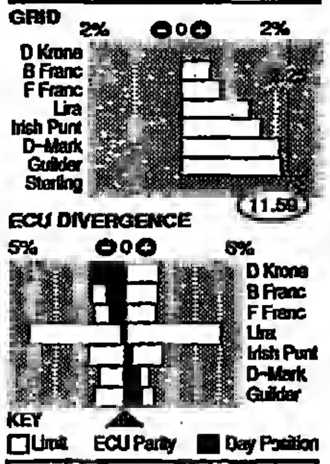
Business Summary

GPT plans telecoms exchange drive in US

GPT, UK telecoms group facing merger with Siemens of West Germany, has launched plans to break into the lucrative US market for public telephone exchanges.

Selling parts of its System X exchange in the US would bring GPT into direct competition with Siemens, which has devoted years to marketing its own system. Page 8

EUROPEAN Monetary System: The Bank of Spain continued to sell pesetas for dollars. Spain's decision to join the full EMS exchange rate mechanism was seen as a move to cap the peseta's strength and provide financial discipline in Madrid. The weaker dollar created demand for the strong EMS currencies but after volatile trading, the D-Mark and Dutch guilder ended well within their alarm bell limits against the Danish krone.



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the Lira may move by more than 2¼ per cent. The lower gives currencies' divergence from the central rate against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

CONSOLIDATED Gold Fields, UK mining group, plans to highlight the value of its aggregates arm, ARC, in an attempt to force predator Hanson to raise its £3.1bn bid. Page 21

AMERICAN Medical International, the US hospitals group the board of which will meet on Thursday to consider a $3.3bn leveraged buy-out offer, has won permission from bond holders to repurchase 20-year zero coupon bonds it issued in 1982. Page 20

TIPHOOK and Stena, the Anglo-Swedish venture mounting a hostile $824m (£532m) bid for Sea Containers, has invited the ferry group's chief for talks that could produce a higher offer. Page 21

HOLLY FARMS, US chicken processor, ended an eight-month bid battle by agreeing to be taken over by Tyson Foods of the US for about $1.4bn (£893m). Page 20

ISOSCELES, the company formed to bid for Gateway, argues that its cash and paper offer for the British food retailer is worth more than the rival 237p a share joint bid from Wasserstein Perella, US corporate finance house, and Great Atlantic and Pacific Tea Company, big US food retailer. Page 21; Lex, Page 16

PRIME Computer, US maker of computer aided design equipment, has accepted a $1.25bn (£797.7m) takeover offer from JH Whitney, which claims it is the US's oldest venture capital firm. Page 20

IRAN and the Soviet Union concluded agreements on economic and industrial co-operation worth more than $6bn last week, according to the official Iranian news agency IRNA. Page 16

US is encouraging Mexico and its commercial bank creditors to agree on a debt reduction package before the seven-nation summit of leading industrialised countries in Paris in three weeks' time. Page 16

BARCLAYS de Zoete Wedd, broking arm of Barclays Bank, UK commercial bank, is to buy a 50 per cent stake in Deacon Morgan McEwen Easson, a medium-sized Canadian institutional brokerage firm. Terms of the deal were not disclosed. Page 20

ASSICURAZIONI Generali, Italy's largest insurance company, reported a 22 per cent rise in consolidated net profit in 1988 to L572.4bn ($407m) from L468.6bn the previous year. Page 20

Gonzalez says UK stance may force EC treaty changes

By Peter Bruce, William Dawkins and Philip Stephens in Madrid

MR FELIPE GONZALEZ, the Spanish Prime Minister, may try to force through changes in the EC Treaty if the British Government continues to block unanimous agreement on economic and monetary union.

Speaking on the eve of today's European Community summit Mr Gonzalez warned that he might call an intergovernmental conference (IGC) to bring about the necessary amendments to the EC treaty.

Draft summit conclusions worked out last week between the Spanish leader and Mr Jacques Delors, President of the European Commission, call for the 12 member states to begin preparations for such a conference. This would pave the way for the constitutional changes needed for a move to full economic and monetary union.

An IGC is the only forum with the power to revise the EC Treaty, as was needed to create the Single European Act, the legal framework for the single market project. A treaty revision would be needed to put into effect full monetary and economic union. Implementation of phase one requires no treaty change.

Mr Gonzalez told a Spanish newspaper yesterday that any agreement by Britain to begin phase one of the three-stage Delors report on monetary union would have to be linked, somehow, to the ensuing two phases – an idea which Mrs Margaret Thatcher, the British Prime Minister, cannot accept.

However, Mr Gonzalez, chairman of the two-day summit, appeared anxious to avoid a row over European Commission proposals for a social charter of minimum workers' rights to which the UK is even more deeply opposed. He said he would not push for a detailed debate or firm conclusions on social policy.

In the three page interview in El Pais, Mr Gonzalez said that if Britain were simply to agree to enter phase one of the process in July next year, the entire debate would have regressed to 1979, when the European Monetary system was first mooted.

Although EC officials were yesterday playing down the possibility of an IGC, Mr Gonzalez insisted that the summit could call one on a simple majority vote.

"Probably, if some Community countries feel that a decision is being blocked again, they could opt for calling an intergovernmental conference," he said.

While an IGC can be called by a majority, the Treaty of Rome can be changed only by unanimous agreement, as happened in 1985 when the Single European Act was adopted despite British misgivings.

"My impression," said Mr Gonzalez, who has recently had bilateral meetings with all 12 Community leaders, "is that there are important countries, numerically in the majority, that believe that one cannot return to the level of discussion and decision of the 1970s.

"If we do not succeed in reaching an agreement some of us will say: 'fine, those of us who want to go ahead (with full implementation of the Delors report) will convene an intergovernmental conference and those that do not will always have a mechanism to link up when they want to'."

However, West Germany's Bundesbank recently voiced caution over the speed and extent of monetary co-operation envisaged in the Delors report.

Stage one envisages a strengthening of economic and monetary policy co-ordination within existing institutions with all EC states becoming full and equal members of of the European Monetary System. After unanimous agreement on revision of the EC treaties, stages two and three would lead gradually to economic and monetary union with Community controls over national fiscal policies, a European System of Central Banks and – ultimately – a single European currency.

While pledging to work for consensus at the Madrid summit, Mr Gonzalez said that "one should not try to exclude anyone, but one cannot give anyone a veto to brake the wishes of the others to advance towards monetary union."

Britain to offer no timetable

By Philip Stephens, Political Editor, in London

MRS Margaret Thatcher, the British Prime Minister, arrived for the Madrid summit last night ready to offer a more positive gloss on the prospects for full British membership of the European Monetary System.

Her attempt, however, to avoid isolation at today's European Community summit will fall short of any commitment to a specific timetable to take sterling into the EMS exchange rate mechanism.

Mrs Thatcher, who only 10 days ago decisively rejected the central conclusions of the Delors report on European Monetary Union, appears to have bowed to pressure from her senior ministers to accept that the Community should move ahead with the implementation of stage one of the report. That would include further liberalisation of capital markets and financial flows between member states as well as a commitment by Britain to take up full membership of the EMS.

Mr Nigel Lawson, the Chancellor of the Exchequer, and Sir Geoffrey Howe, the Foreign Secretary, have suggested that a decision to join might be taken some time after mid-1990. That is the date when other Community countries are due to lift their remaining exchange controls, and by then Britain's inflation rate should have fallen to closer to the Community average.

That view now commands a majority in the Cabinet, and was voiced openly at the weekend by Mr Peter Walker, the Welsh Secretary. He told the Conservative Party's annual conference in Wales that the Government's heavy losses in the recent elections to the European parliament reflected a perception that it had become "anti-European."

Mr Walker, echoing the private opinions of many of the Cabinet, said a pledge to join should be given "quickly."

It is understood, however, that Mrs Thatcher has indicated in discussions with her senior ministers that she is still extremely sceptical about such a move before the next general election, due by mid-

Continued on Page 16

Papandreou illness deepens political crisis

By Andriana Ierodiaconou in Athens

THE political crisis gripping Greece since inconclusive general elections on June 18 deepened yesterday amid concern over the serious condition of Mr Andreas Papandreou, the acting Socialist Prime Minister.

The health of the 70-year-old premier, who was admitted to hospital on Thursday with pneumonia, worsened on Saturday night and doctors said he was suffering from a cardiac infection and renal failure.

Late yesterday, a medical bulletin said "his heart condition is stable and the disturbance in his kidney function is being treated by dialysis". Earlier, Dr Magdi Yacoub, the Egyptian-born cardiologist who operated on Mr Papandreou last year, flew to Athens in a private jet with a team of three British renal specialists. Mr Papandreou has been moved to an intensive care unit in the kidney section of Athens General Hospital.

Mr Papandreou underwent triple by-pass surgery in London last September and has been in frail health since.

His condition was presumably aggravated by the physical stress of the election campaign and the psychological stress of the Socialists' eventual defeat at the polls, after eight years in power, with 39 per cent of the vote against the Conservatives' 44 per cent.

The gravity of his condition was underscored by a stream of visitors, including Ms Dimitra Liani, his 34-year-old mistress, Mrs Margaret Papandreou, the wife he divorced in acrimonious circumstances on the eve of the elections and his four children. The leaders of the Communist and Conservative Parties, the president and a bevy of senior Socialist officials were also at his bedside.

Because the Conservatives failed to secure a majority of seats in parliament, Mr Papandreou and his Government remain in office in a caretaker capacity, provided for under the constitution, until a government can be formed to either run the country or oversee a fresh election.

Mr Papandreou, Greece's first socialist premier, was considered well enough last Friday to be invited by the President of the Republic, Mr Christos Sartzetakis, to try to form a viable government. Earlier efforts by Mr Constantine Mitsotakis, the Conservative leader, in that direction had failed.

China's new party chief, Jiang Zemin, looking bewildered when he appeared on national television after his appointment at the weekend

Peking moves to purge party of liberal elements

By Steven Butler in Peking

THE CHINESE Communist Party is poised to embark on a broad purge of its ranks in an effort to wipe out any trace of resistance to the country's hardline leadership.

The purge would be the latest in a series of harsh measures, including widespread arrests and some executions of supporters of the nationwide pro-democracy protests earlier this month.

The call to cleanse the party ranks comes a day after Zhao Ziyang was ousted from his position as general secretary of the party at a meeting of its central committee. He was replaced by Jiang Zemin, the former mayor of Shanghai, who is seen as a political hardliner.

The purge follows a meeting of the party's discipline inspection commission, which is headed by Qiao Shi, the hardline leader in charge of security.

The commission said party members who had violated party discipline should be strictly punished. The purge appears to be aimed at the many party members who supported pro-democracy protests which were crushed by the Chinese army on June 4.

Zhao, a widely respected economic reformer, was stripped of all senior position, including vice chairman of the military affairs commission. He was accused of committing "serious mistakes" which involved supporting "turmoil," the party's term for the protests, and of splitting the party.

However, in an evident effort to moderate the attack against Zhao, he was referred to in the communiqué from the meeting as "comrade" and was allowed to retain his party membership.

Persistent disagreement over how to treat Zhao was indicated by the party's decision to continue its investigation into the case.

The reshuffle of the leadership, believed to be orchestrated by Deng Xiaoping, China's ageing paramount leader, also saw the appointment of two new members of the standing committee of the party Politburo, Li Ruihuan, the mayor of Tianjin, and Song Ping, who at 73 was most recently head of the organisation department of the party central committee.

Some analysts see the new leadership as balanced between practical economic reformers, represented by the two former mayors, and by economic conservatives Yao Yilin and Li Peng, the Prime Minister, with Qiao Shi and Song Ping not firmly committed on economic policy.

The leadership, however, was widely seen as a transitional team that would be in operation only until the death

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Soviet deputies call for easier property laws, capital markets

By Quentin Peel in Moscow

THE Soviet Union's new Congress of People's Deputies, the directly elected super-parliament, has instructed the Government to draw up laws easing state controls over property ownership and, in the near future, creating a capital market for bonds and securities.

The deputies, whose outspoken debate on the economic, political, environmental and cultural failings of the Soviet system has sharpened public awareness in the country, have also demanded that the Government elash ita capital investment programme, and speed up the economic reform process to decentralise decision-making.

They have also gone well beyond official government policy, demanding that an experiment be tried to pay farmers in foreign currency to produce more food – to reduce food and grain imports from abroad.

The conclusions of the Congress across the whole range of Soviet government policy, published only this weekend, are considerably more radical than the conservative tenor of a recent meeting of the depnties, in which a conservative majority held sway.

The resolution of the Congress, drafted by a high-powered committee including several top members of the Politburo, and chaired by Mr Vadim Medvedev, the party ideology chief, is seen as being a virtual instruction to the government and Snpreme Soviet to obey.

Mr Mikhail Gorbachev, the Soviet leader, presided over stormy meetings of the deputies where, for the first time, views of radicals and conservatives were thrashed ont in debates broadcast on national television.

The resolntion appears to be another way in which Mr Gorbachev has succeeded in slipping through a commitment to more radical reform, behind the backs of an instinctively sceptical party bureaucracy.

The key sections of the resolution concern the measures demanded for the creation of new – and equal – forms of property ownership, and for the creation of a "socialist" market.

The former calls for the Snpreme Soviet – the new standing parliament which is technically subordinate to the Congress – to draft a law on land and land use, to accelerate a switch to leasehold and other forms of tenure. The law should "ensure the development of many various forms of socialist property," it says, adding the proviso "excluding the exploitation and isolation of the worker from the means of production."

It says that competition between different property forms must be equal – precluding any priority for traditional state ownership of the means of production. Thus state, communal (local), co-operative, leasehold, shareholding, individual and mixed

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THE MONDAY INTERVIEW

Ariel Sharon, Israel's Trade and Industry Minister, makes no secret of his ambitions for himself and his country. Neither Arab aspirations nor the sensibilities of world opinion figure large in his thoughts. **Page 34**

LDP beaten by Socialists in Japanese by-election

By Ian Rodger in Tokyo

JAPAN'S scandal-rocked ruling Liberal Democratic Party received a sharp slap in the face last night, as voters in the rural Niigata prefecture gave the Japan Socialist Party (JSP) an easy victory in a by-election for a seat in the upper house of the Diet.

The vote was widely seen as a test of public attitudes in advance of elections next week for the Tokyo city government assembly and on July 23 for half the seats in the upper house of the Diet (parliament). National leaders from both parties made appearances during the campaign.

Analysts said the result showed widespread voter discontent with the LDP Government arising from several issues, including the introduction of the three per cent value added tax in April, the liberalisation of some farm product imports last year, political corruption revealed in the Recruit bribery scandal, and recent reports alleging that Mr Sousuke Uno, the prime minister appointed on June 2, had an affair with a prostitute.

These trends were also reflected in the latest national opinion poll published yesterday, suggesting that only 16.7 per cent of voters supported the Uno cabinet.

Mr Uno, formerly the foreign minister, was selected by LDP leaders last month to become prime minister in the hope that he would improve the party's public image. However, allegations of womanising have apparently contribnted to a further decline in the party's support. A poll last week indicated that 22 per cent of the public supported his cabinet.

If these trends persist, analysts believe the LDP will lose its majority in the upper house in the July 23 elections. If the loss is severe, the party could be thrown into a fresh leadership crisis, they say.

The JSP victory in last night's by-election was not unexpected. Although the largely rural area is traditionally an LDP bastion, this particular seat had been held by the JSP. However, the turnout this time, 62 per cent, was larger than in 1983, when the seat was last contested in a general upper house election. Analysts attributed this partly to the determination of farmers to register a protest vote against the LDP.

The winner, Ms Kinuko Ofuchi, received 560,275 votes, while Mr Hideo Kimi of the LDP got 482,891 and the Japan Communist Party candidate 47,174. Ms Ofuchi's term of office will run to July 1992. Her election brings the JSP's strength in the upper house to 43; the LDP has 142 seats.

Howe to be greeted by Hong Kong protests

By John Elliott in Hong Kong

A SERIES of mass demonstrations and protests in support of Hong Kong people's demands for British passports is to start next Sunday when Sir Geoffrey Howe, the British Foreign Secretary, arrives in the colony to face a rising tide of anti-British feeling.

The British government is believed to be working on a plan which could involve giving passports to selected Hong Kong groups, including professionally qualified people, senior businessmen, civil servants, Indians and other minorities, and a small number of war widows.

Hong Kong wants the UK to organise passports for up to 5.5m Hong Kong Chinese, plus about 11,000 Indians and other minorities, to act as an insurance after 1997 when China resumes sovereignty over the colony.

The British government's list of selected groups would be widely condemned for being divisive. But it is not expected to have been settled by the time Sir Geoffrey arrives.

Details were announced last night of a "march for freedom of abode" which will greet him at the airport. It is being sponsored by a group of professional people.

Rivalries are developing among different pressure groups formed since the Tiananmen Square students' protests in Peking, and these might reduce the impact of some of the demonstrations.

Yesterday Dame Lydia Dunn and Mr Allen Lee, senior members of the colony's executive and legislative councils, returned to Hong Kong after a five-day visit to London, where they met Mrs Margaret Thatcher and other political leaders over the passport issne. Dame Lydia said a "great deal of work" remained to be done to win over the British people and government to the cause.

Members of the new Chinese politburo: Song Ping, Yao Yilin, Qiao Shi, chairman Yang Shangkun, general secretary Jiang Zemin, Li Peng and Li Ruihan

Man from Shanghai takes over

Steven Butler profiles Jiang Zemin, China's unexpected new leader

JIANG ZEMIN, China's newly-appointed Communist Party general secretary, had a look of blank bewilderment on his heavy, round face on Saturday, when shown on Chinese national television at the party central committee meeting, as though he was not quite certain it was really happening.

Although word that he was under consideration for the job had slipped around the diplomatic community for a few days, Jiang had none of the usual prerequisites for holding what is in theory the most powerful job in China.

Powerful politicians need powerful constituencies of great loyalty. Jiang's political experience, however, looks to be narrow.

He was Minister of Electronics Industry for a few years before 1985 and then became mayor of Shanghai, China's largest city and its industrial powerhouse. He gave up the position of mayor last year, retaining the post of Shanghai municipal party secretary.

Although he joined the party politburo in 1987, his rise to head the world's largest communist party, with 47m members, is sudden by any standards.

Most analysts believe he holds no real power, at least yet. This would have to be built over the years by appointing his followers to important positions. Yet if, as appears likely, his success derives entirely from the authority of Deng Xiaoping, China's ageing paramount leader, he may never have time to build this following.

Because of this, he is seen by most as something of a lame duck, a transitional leader acceptable to the real powers behind the scene, inclnding Deng, Yang Shangkun, the president, and Qiao Shi, the senior politburo member in charge of security. The real struggle for a more permanent political arrangement, according to this logic, would have to come after the death of Deng, with the outcome unpredictable.

Jiang has the reputation of a technocrat, a modest economic reformer who came to Shanghai with a brief to revive the city'e industrial growth, reforming industry without upsetting central government revenues, which are heavily dependent on Shanghai. He is, however, no political liberal.

Jiang did get a number of big projects under way in Shanghai, including preliminary work on the Shanghai underground, road and bridge building and port development, all of which had been sorely neglected. He also made a big pitch for more foreign investment in Shanghai, although there are those who say his sncessor as mayor, Zhu Rongji, was more successful at clearing away red tape.

Jiang, 63, joined the Communist Party in 1946, a year before he graduated from Jiaotong University in Shanghai, where he studied electrical machinery. He spent a year in Moscow in 1955 as a trainee at the Stalin Automobile Factory. He speaks Russian and English, and can be affable and outgoing, according to foreigners who have dealt with him. Yet he can also be distant and cautious, and plainly lacks the flair and vision of Zhao Ziyang, his predecessor as party chief.

This may be precisely why he was chosen. He fell quickly into line behind the hardline leadership when martial law was declared in China on May 20, and was responsible for the ousting of Qin Benli as editor of the liberal World Economic Herald.

Although he supported the crackdown, one advantage he brings to the job is that he has no blood on his hands. In Shanghai, demonstrations that paralysed the city were quelled without military force, although many arrests and three executions followed.

Sri Lankan MP shot dead in 'leftist attack'

A MEMBER of Sri Lanka's parliament was shot dead yesterday by suspected left-wing rebels who burst into his office and sprayed it with machine-guo fire, police said, Reuter reports from Colombo. A civilian and policeman also died.

Mr Anura Daniel, 34, of the United Natiooal Party, was shot in central Sri Lanka by three men dressed as soldiers. Mr Daniel, one of the youngest members of parliament, died on the way to hospital.

Police blamed the attack on the People's Liberation Front (JVP), which is trying to overthrow the Government with a campaign of killings and strikes.

The Government last week imposed a state of emergency saying 1,700 people, including 500 members of political parties and their families, had been killed since January by subversives – a term used to refer to the JVP.

Mauritian budget focuses on prices and trade deficit

By Tony Hawkins in Port Louis

THE 1989 Mauritian bndget presented on Friday by finance minister Vishnu Lutchmeenaraidoo contains a battery of measures designed to slow inflation and speed transition from a labour-intensive economy to a capital-intensive one.

The anti-inflationary proposals are predominantly monetary and supply-side in nature, with Mr Lutchmeenaraidoo managing to stabilise the deficit at 825m rupees ($57m), or 2.5 per cent of gross domestic product, without any increase in taxation.

But with inflation up to 16 per cent this year from 1.5 per cent previously the minister warned Mauritians that they risked pricing themselves out of export markets. He predicted that growth would slow to 5 per cent from 5.5 per cent in 1988.

Monetary growth targets have been lowered to 14 per cent from 80 per cent with a ceiling of 20 per cent on bank credit expansion. Growth in government spending is to be restricted to 13 per cent – implying a reduction in the real level of expenditure.

Pointing out that the savings ratio fell to 25 per cent last year from 28 per cent before, Mr Lutchmeenaraidoo introduced increased tax reductions for pension contributions along with tax incentives for investment in unit trusts. Stamp duty has been abolished on all securities listed on the stock exchange in advance of the start up of the Port Louis exchange on July 15th.

Highlighting the impact of the labour shortage on wage costs and inflation – unemployment is estimated at less than 3 per cent – the minister announced a 200 per cent tax deduction for company spending on training programmes.

Angola rail move

ANGOLA has anthorised the Belgian company Société Générale de Belgique, which owns the Benguela railway, to inspect the line, the Angop news agency said yesterday, Reuter reports from Luanda.

The railway, which once carried Zambian and Zairean mineral exports to the Atlantic port of Lobito, has been closed for more than a decade because of the Angolan civil war.

Hopes rise for ANC talks with Inkatha

By Anthony Robinson in Johannesburg

LAST WEEK'S successful second round of talks in Durban between the Zulu Inkatha organisation and the "mass democratic movement", aimed at ending two years of bloody fighting in Natal, has raised speculation abont posslble direct talks between senior African National Congress (ANC) and Inkatha officials to resolve the underlying political conflicts behind the fighting.

Given the banned status of the ANC in South Africa, such a meeting would have to take place abroad, possibly in London or Lusaka, headquarters of the exiled leadership of the ANC.

The first hint of a new attempt to end the conflict came earlier this year in a personal letter from Mr Nelson Mandela, the jailed ANC leader, to Mangosuthu Buthelezi, head of Inkatha. Mr Mandela called for "restoration of cordial relations" which existed between the ANC and Inkatha in the 1970s.

Last month Mr Archie Gumede, president of the United Democratic Front (UDF) sent another letter to Chief Buthelezi calling for a meeting to discuss how the ANC could be brought directly into the peace negotiations as Inkatha demanded.

The UDF is widely perceived as the de facto internal wing of the ANC and was in effect banned on those grounds in February last year.

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OVERSEAS NEWS

Hungarian Party dilutes Grosz's powers

By Leslie Colitt

HUNGARY'S Communist Party avoided an open split at the weekend by expanding the leadership into a four-man presidency and diluting the powers of Mr Karoly Grosz, the embattled general secretary.

Mr Rezső Nyers, the "father" of Hungary's 1968 economic reforms, was elected to head a collective party presidency. It includes Mr Grosz, heavily criticised for his wavering, middle-of-the-road politics, who remains nominally party head.

But the balance of power in the leadership has swung decisively toward the radical advocates of liberalisation. In addition to Mr Nyers, the collective presidency includes Mr Imre Pozsgay, the party's most popular reformist politician, and Mr Miklos Nemeth, the reform-minded Prime Minister.

Central Committee officials in Budapest said the widening of the leadership presaged an important change at the peak of the party's hierarchy. The general secretary is to be responsible mainly for party administration while real power is to be invested in the collective party presidency.

The shifts in the leadership capped an open power struggle in which party reformers sought to force Mr Grosz to resign before a special party congress planned for early October. The Central Committee, however, which endorsed the collective presidency on Saturday, is still made up largely of officials loyal to whomever the party general secretary may be.

Mr Nyers was regarded as a prominent candidate to succeed Mr Grosz at the party congress along with Mr Pozsgay who, however, showed more interest in becoming Hungary's new President with greatly enlarged powers.

Both men advocate transforming the Communist Party into a Western-style social democratic party in time for next year's planned elections.

They are to be the first free elections since 1947 and unlike the recent balloting in Poland, the Communist Party will not retain a guaranteed majority.

Mr Nyers, who is 65, takes a more low-key approach to power than Mr Pozsgay, 57, and is preferred by many party officials who fear a showdown between the radical reformist wing and hard-line party conservatives to whom Mr Pozsgay is anathema.

Economic reform stalled amid Budapest upheaval

Leslie Colitt, recently in Hungary, on a lack of political will

THE dramatic reshuffle in the Hungarian Communist leadership at the weekend marks a key victory by radical reformers over Mr Karoly Grosz, the party's ineffective and increasingly unpopular general secretary.

Senior central committee officials in Budapest said Mr Grosz's authority had been sharply reduced by the new collective party presidency under Mr Rezső Nyers.

In a new division of power, the general secretary is to become the party's chief administrator while the collective presidency exercises political control. Significantly, three out of the four members of the presidency – including Mr Imre Pozsgay, the foremost advocate of liberalisation – are radical reformers. The fourth is the centre-of-the-road Mr Grosz who is expected to be ousted at the next party congress in October.

Mr Nyers's rise to the peak of the collective party presidency is a vindication of his long-held reformist convictions. As the initiator of the pioneering economic reforms of 1968, he was ousted from the ruling politburo in 1972 and only last year made a remarkable political comeback.

The serious deterioration in the Hungarian economy and the stalling of the economic reforms are bound to increase his influence in coming months.

Hungary's much-vaunted economic reforms will remain in limbo until a sweeping transformation of the Communist Party takes place and a legitimised leadership can call on the population to make economic sacrifices.

This is the view of prominent Hungarian economic reformers as the economy steadily deteriorates and urgently-needed structural reforms are postponed because of a lack of political will.

"We have a weak government which reflects the split in the party," Dr Lajos Bokros, managing director of the Hungarian National Bank said last week. Neither structural nor institutional changes in the economy were being undertaken. Instead the Government lurched from one emergency measure to the next.

"The Government we have is not credible and therefore is not strong enough to make unpopular decisions," he noted. Mr Bokros recently joined the party's leading reformer, Mr Imre Pozsgay, in a committee which aims radically to democratise the Communist Party. Its members favour the removal of Mr Grosz.

The economy's worsening performance – the current account deficit soared to nearly $700m in the first four months – was reflected in a quarrel with the International Monetary Fund.

The IMF postponed until September the fifth tranche of a $350m standby credit because Hungary failed to meet its budget and current account targets in the first quarter of the year.

Mr Bokros said only a totally reformed Communist Party could call for the harsh measures necessary to solve the nation's acute economic problems.

Like many Hungarians he believes Mr Pozsgay, a member of the ruling Politburo and Minister of State for the reforms, could provide the political impetus needed to push forward the stagnating economic reforms. Although Mr Pozsgay has said that he would prefer to become President of Hungary under a new constitution giving the office enlarged powers, he has indicated that he would heed an appeal from the party.

"Pozsgay cannot escape the challenge to head the party for the sake of the party," Mr Bokros suggested.

As the split widens between Mr Grosz and Mr Pozsgay, a third ultra-conservative wing within the party is mobilising its forces. A neo-Stalinist faction calling itself the Marxist Unity Platform has accused the party of selling out to the West and of being the prisoner of Western banks.

Mr Pozsgay is anathema to the arch-conservatives and is regarded as a virtual traitor for attending last week's Day of Mourning for Imre Nagy, the executed leader of the 1956 uprising.



Nyers, left, and Pozsgay: the balance of power has swung sharply towards their policy of liberalisation

The hardline head of the Marxist Unity Platform, Mr Robert Ribanszky, wants to restore "order" in the liberal Hungarian media and could join forces with the reactionary Ferenc Münnich Society whose supporters are mainly found in the Worker's Militia, police and security service.

While party reformers insist Mr Ribanszky and the Ferenc Münnich Society have little support among rank-and-file members, the population is worried, especially after what happened in China, that they could stage a putsch and put an end to the reforms.

If the reformers continue to gain momentum, however, Mr Grosz could be forced out of office even before the party congress next September, party officials note.

"His dance of two steps to the left and two steps to the right has to stop," one Central Committee official said. "At present the party has no strategy but only tactics."

Thus, Mr Grosz recently attacked a "petit bourgeois" tendency in the party which advocated a "boundless democracy". At the same time he called himself a "centrist" who was not bound to any of the party's rival wings.

"I am not a reformer and not a fundamentalist," Mr Grosz told baffled viewers of Hungarian television. "I am a Communist and thus a realist."

Whoever of the radical reformers comes to power he will have quickly to begin transforming a badly demoralised party. This must take place if the party is not to suffer a crushing defeat in elections early next year.

The consensus is that even a dramatically reformed party will fail to gain an absolute majority and will have to find a coalition partner among the opposition parties in order to stay in power.

Mobs storm police station in Kazakhstan

A MOB armed with sticks, stones and metal rods stormed a police station in Soviet Kazakhstan as the ethnic unrest which began nine days ago in the city of Novy Uzen spread to nearby areas, Pravda said yesterday, Reuter reports from Moscow.

Over the weekend there were disturbances in five Kazakhstan towns near the Caspian Sea, Pravda said, in the most widespread unrest reported in the republic since thousands of Kazakh youths went on the rampage in December 1986.

More than 100 people have died this month in ethnic unrest in three Soviet Central Asian republics: Kazakhstan, Uzbekistan and Tajikistan.

Polish protests

Protesters marched in three Polish cities yesterday in further demonstrations against General Wojciech Jaruzelski becoming president, Reuter reports from Warsaw.

The National Assembly is to elect a president early next month and Gen Jaruzelski is widely expected to be the Communist Party's candidate for the newly created post. The protests yesterday were in Lublin, Gdansk and the Krakow suburb of Nowa Huta.

Yugoslav mine strike

More than 100 ethnic Albanian miners refused to work in Yugoslavia's Kosovo province yesterday as armed policemen guarded towns to deter unrest ahead of a mass Serbian national festival, Reuter reports from Pristina.

Pitmen at the Trepca lead and zinc mine, north of the Kosovo capital of Pristina, halted work in protest over not receiving May salaries and bonuses, Tanjug agency said.

US visit allowed

Afghanistan will allow a US diplomat to travel to Kabul to seek the release of a captured American journalist, the Government said yesterday, Reuter reports from Kabul. A spokesman said the State Department had asked for an envoy to be allowed in.

Finance ministry anxiously leaves the Louvre for The Tub

By George Graham in Paris

IT TOOK the blood and flames that marked the end of the Paris Commune to drive the French finance ministry out of its last address 118 years ago. This time, the ministry has not actually had to be smoked out, but it has taken considerable determination to winkle it out of its eyrie in the north wing of the Louvre, now to be returned to the cause of art.

This morning, Mr Pierre Bérégovoy, Finance Minister, will at last take up residence in his new quarters in Bercy, in eastern Paris. It was Mr Bérégovoy himself who ordered the move, but it was countermanded by his successor, Mr Edouard Balladur, in 1986 only to be reinstated in 1988 when the Left returned to power. The new ministry, designed by Mr Paul Chemetov and Mr Bourja Huidobro, is not to everyone's taste. Some local residents have baptised it "The Tub".

At its northern end, where it spans the road from the Gare de Lyon, it resembles a giant Mulberry pontoon, but at the other extremity it turns into a North Sea oil rig, with four legs protruding into the River Seine and a high-speed lift linking Mr Bérégovoy's official duplex flat with a helicopter pad above and a jetty for his motor boat below.

Although not officially part of the pharaonic programme of "grand works" launched by Mr François Mitterrand to commemorate his presidency, the FFr3.7bn (£360m) ministry has already set its stamp on the Paris panorama, indelibly marking the view upstream from Notre Dame.

Mr Bérégovoy and his three junior ministers – budget, foreign trade and consumer affairs – will all have ample room in their new offices, even if some of them might regret leaving the ormolu and tapestries of the Louvre. Junior civil servants too are for the most part pleased by the improved working conditions of The Tub, while some departments previously scattered over Paris are happy to join their colleagues in the immediate orbit of their minister.

The senior mandarins of the budget division, who moved in in April, or of the Treasury, just installed, are less enthusiastic. They recognise the advantages of having a separate and highly computerised office each, instead of cramming six Empire escritoires and a sprawl of cables into one larger room in the Louvre, but they are anxious about their isolation at Bercy. They may get over the cultural dislocation; some cafe will doubtless be found to replace the cherished Raguenau.

The physical isolation from the downtown ministries, however, will be more difficult. "When a minister is going to a meeting we will be able to catch a lift on the motor boat. Otherwise it is the Metro," complains one treasury official. And although Bercy boasts its own Metro station, it is on a line leading nowhere that a finance ministry official might want to go.

The better connected Gare de Lyon is 15 minutes away on foot, the time it used to take to walk to the Elysée Palace.

Politically too they will be out of touch with the downtown spending ministries. "Quite right too. It is about time they stopped meddling," remarked one of their more centrally located colleagues.

There remains the possibility that the mountain might come to Mohammed, for the Finance Ministry forms the hub of a wider plan to shift the development of Paris towards the neglected east. Apart from a number of other projects on the Bercy bank, the plan is to build a new national library across the river at Tolbiac and to surround it with a major commercial services centre – a sort of Wall-Street-on-Seine.

This plan has so far received a chilly reception from the financial world. "We have spent the last three years shaking off their control. Why should we move back within range? Besides, we have already signed a lease on a new building in central Paris and I certainly don't want to have to move twice," said one stockbroker.

That at least is something with which the finance ministry officials, after their own FFr8m moving operation, can agree.

As European Community heads of government gather for this week's Madrid summit, FT writers identify the key issues for debate

Leaders expected to back easing of frontier controls

By William Dawkins

EFFORTS to make the European Community less bureaucratic for travellers and more secure for ordinary citizens will get a political push at this week's Madrid summit.

EC leaders are expected to give their blessing to an ambitious European Commission programme setting out the steps for the removal of physical frontier checks on people by the end of 1992.

They are not expected to give the nine-point inventory much debate, if only because the summit agenda is already overloaded with the contentious central issues of economic and monetary union and social policy.

Instead, the plan will be given broad support by leaders, including Mrs Margaret Thatcher, the UK Prime Minister, whose only quibble appears to be that the timetable is too optimistic.

Among the main points are common immigration policies – by far the hardest part – co-ordinated controls on drugs and terrorists, common extradition procedures and the removal of plant and animal health checks away from frontiers.

None of these proposals is new but the plan takes a new approach by separating what it considers essential measures for the abolition of controls from a separate list of desirable but non-essential steps, and attaching deadlines to all of them.

It reckons, for instance, that common extradition procedures are essential, while harmonised criteria for deciding on extradition requests are merely desirable. The distinction is a telling mark of the Commission's willingness to compromise in what had become a sterile political debate on frontiers.

The plan itself is the first product of a task force of senior Commission and national officials set up at the last European summit six months ago in Rhodes. Their job was to break a political deadlock. On the one side were the sceptics led by the UK and including Denmark, Greece and Ireland, which wanted to keep the right to examine incoming EC nationals; on the other was the Commission and the other eight EC members, pledged to end all internal barriers. This is one of the few points on this summit's agenda where Britain is not isolated.

The main message from the report from the so-called Rhodes co-ordinators' group is that it has started to crack the problem. It agreed to leave aside the insoluble argument on whether or not the Single European Act really does predicate the total scrapping of internal frontiers. Instead, it focused on steps to diminish border checks.

Even with this new pragmatism, it has only partially lived up to the hopes of Mr Martin Bangemann, the Internal Market and Industry Commissioner, the group's political chief. He identified three fruits for what he called an "early harvest" for Madrid: agreements on common asylum rules, extradition procedures and an EC visa list.

In the event, the group provided full satisfaction on only one, agreement from EC immigration ministers that asylum requests from Community citizens must be handled by the EC country they first entered. The group is temporarily stuck on visas, where there is agreement on a list of more than 60 countries whose nationals must have a visa to enter the EC, but disagreement on half-a-dozen more.

Common extradition procedures are nearly agreed, awaiting only the promised signatures of Britain, Belgium and Portugal to a Council of Europe convention.

As for future work, the detail of the report's nine headings is as follows: common and tougher checks at external borders; steps to ease physical controls at internal borders; joint action against drug trafficking; better co-operation against international terrorism; an EC visa policy; agreed treatment of refugees and asylum seekers; decisions on which governments are responsible for removing individual frontier posts; judicial co-operation; and common rules on the carrying of weapons and other sensitive goods.

Thatcher: host González (centre) and president Delors suggest she could be isolated

Third World 'threatened by 1992'

By Joel Kibazo

SOME of the world's poorest countries stand to lose out as a result of the creation of the single European market in 1992, according to a report published today.

The report, from the World Development Movement, a UK-based Third World pressure group, examines the single market programme sector by sector and looks at the impact each sector would have on trade, aid, the environment and on investment flows to the Third World.

Countries whose economies were dependent on the production of commodities such as sugar and bananas, the report says, would be hit particularly hard with the possibility of over 100,000 sugar workers in Mauritius and the Caribbean losing their jobs.

The report says many Third World countries were already facing restrictions. It says: "In reality the markets of Europe are already effectively closed to the most profitable forms of trade from the least developed countries. For them, Fortress Europe already exists."

Export opportunities into the Single Market are likely to be won by the newly industrialising countries (NICs) in South-east Asia rather than by the poorest countries such as those in Africa, the report says.

The report calls for the positive assistance for the poorest countries to adjust to the single market; special attention to the marketing of sugar, bananas and textiles after 1992; greater consultation with poor countries over the single market programme; and the establishment of a unit within the EC to monitor the effects of the single market on the Third world.

"Beyond 1992 – the effect of the European single market on the World's poor", WDM, Bedford Chambers, London WC2 8HA.£2.

Isolation nightmare unlikely to come true for Thatcher

By David Buchan

FOR Mrs Margaret Thatcher, the nightmare outcome of the summit would be to be on the losing end of a vote among the Community's 12 leaders in favour of an inter-governmental conference (IGC) to allow faster progress towards monetary union by revising the EC treaties.

It is not a very likely prospect, despite statements in the past few days by Prime Minister Felipe González, the summit host, and Mr Jacques Delors, the European Commission president, that a call this week for an IGC could not be excluded.

If such a treaty-revising conference is called for, the occasion is more likely to be the EC summit late this year under the presidency of France, or, even more probably, the mid-1990 summit under Ireland's presidency. To put such a momentous issue as changing the Community's existing monetary institutions to the vote, without first making one or two attempts to talk Mrs Thatcher around, would be nearly unthinkable.

But the Delors report, under discussion today, is clear on the need for treaty revision if the European System of Central Banks (envisaged in stages 2 and 3 of the report's recommended advance to monetary union) were to be set up. No one disagrees – not even the UK, which sees no reason to move to a stage 2 or 3, and no cause for treaty revision.

The reason is that the Single European Act (so far, the latest revision of the basic Treaty of Rome) flatly states that modification of monetary institutions requires treaty revision, for which an IGC is needed.

For Mrs Thatcher, the nightmare is all the more painful for having been lived through before. On the second morning of the 1985 Milan summit, its host, Italian prime minister Bettino Craxi, suddenly called a snap vote around the table on whether a treaty revision – and thus an IGC – was needed to put through the famous single market programme. Nine leaders said yes; Mrs Thatcher and her Danish and Greek counterparts said no; and so the conference went ahead later that year and the Community ended up with the Single European Act.

An IGC itself can be convened by simply majority of the Twelve. Thereafter, a country can use its veto. The problem, as Mrs Thatcher has found before, is that the political pressure on the recalcitrant to attend an IGC, and approve its results, is enormous.

However, some institutional moves to closer economic and monetary co-operation could be made by merely revising past EC Council decisions. Such moves could, it appears, be supported by the UK.

Drug companies to rethink investment

RADICAL changes are likely to take place in the way pharmaceutical companies plan investments across Western Europe as a result of new arrangements under discussion for deciding on how European Community governments set prices for state-purchased medicines, writes Peter Marsh.

The changes, linked to the preparations for the completion of the EC single market in 1992, will affect the strategies used by drugs companies in assessing where in the community they site new factories and research centres.

It appears likely that, under pressure from the European Commission, national EC governments will be forced to scrap or substantially modify their policies of letting drugs companies with substantial local investments charge higher prices for their products.

This way of operating should be replaced, according to Commission officials, by systems which take into account not the level of investment by companies in a single country but the cash they spend across the whole of the EC.

The shake-up, due to be gradually introduced over the next few years, will mean that drug companies have less reason to channel resources into a specific country for the sole purpose of gaining a favourable deal over prices from the government concerned.

It will probably lead to less duplication of manufacturing and development efforts by individual companies across the EC and will favour those groups which take a pan-European approach to marketing.

It will also result in greater harmonisation across the community of drug prices, which at present vary widely depending on different price setting regimes.

Some in the industry believe that the new approach may help Japanese drug companies, which so far have little activity in Europe, to gain a foothold in the community.

In the EC, government health agencies foot the bill for the lion's share of all pharmaceuticals sales in the region of some £20bn a year. Price setting systems for drugs, agreed on in individual nations between the industry and specific governments, are thus highly important.

The Commission aims to use its so-called transparency directive on drug pricing, which is due to become implemented across the EC next January, as the basis for its efforts to reduce what it sees as the distorting effects of local price-setting agreements.

Its drive in this area, however, may be resisted by individual governments which dislike the threat imposed from Brussels to their freedom over setting prices and attracting investments in the drugs field.

EC's medicine may have depressing effect on prices

Peter Marsh looks at the pressures to break down national controls in the pharmaceuticals market

WELLCOME, the British drugs company, has spent £22m building a sparkling new plant in Nice in southern France which the company admits is unlikely to operate at more than 50 per cent of its optimum capacity of 2,000 tonnes a year.

In discussing why Wellcome went ahead with such a large factory, Mr Jean-Pierre Mangeot, the ebullient and amiable head of the company's French activities, points out that the plant gives his group extra flexibility and is a good sign of Wellcome's commitment to France.

Another reason, which Mr Mangeot does not mention, is that a large investment of this sort puts Wellcome in a strong position in the horse trading which goes on in Western Europe between drugs companies and the government health agencies which have responsibility for paying for medicines and deciding on prices.

In Western Europe, people are prescribed by their doctors medicines worth some £20bn a year. The lion's share of the bill is met by government health agencies through social-services reimbursements, although consumers often pay a small proportion of their drug costs directly.

The government agencies which act as drug purchasers are strongly influenced when setting prices by the degree of investment – either in plant or in research and development (R&D) centres – which a company has channelled into their countries.

Prices are worked out either according to rigid formulas hammered out by companies and governments, or by closed-doors bargaining sessions between the two sides, the details of which almost always remain confidential.

The upshot, however, remains the same. The map of Europe is dotted with far more pharmaceuticals plants than would appear necessary and prices charged by companies for their drugs vary widely across the continent depending on deals which have been struck in individual nations.

The criteria used for setting prices in the different countries are very important in determining the pattern of sales in Europe of most big multinational pharmaceuticals groups, which include Merck of the US, Glaxo of Britain, Hoechst and Bayer of Germany and Switzerland's Ciba-Geigy.

It can be argued, too, that the relative stability which price setting systems provide has given European drug companies a good base from which to drive into markets into other parts of the world.

The price setting regimes in different countries are, however, under scrutiny by officials at the European Commission in Brussels who fear they distort the European market in pharmaceuticals. The concern is tied to general preparations for the planned elimination of trade barriers in the European Community after 1992.

West Germany, Denmark, Holland and Britain have relatively high prices for pharmaceuticals while Spain, France, Portugal and Italy appear at

1992 THE EUROPEAN MARKET

the other end of the scale. The different price setting systems are the main factors determining which country sits where in this league table – although other aspects such as different patent conventions in some nations may also play a role.

The power governments have over drug prices generally suits politicians and civil servants in the individual countries. By linking higher prices with investment, governments have a useful way to cajole companies to set up local production units and boost employment. "Often it amounts to blackmail," said one senior executive at a big European drug company.

Usually, companies are happy to go along with the method of price fixing, on the basis that they have got used to the systems over the years. Sometimes – in the higher-price countries – the government systems support prices which if left to the vagaries of the market could drop too low for the companies' comfort.

Companies may even like the flexibility which the range of pricing systems give them to charge differently for products in specific countries depending on the level of demand and other market conditions.

There is, however, the obvious possibility that entrepreneurial wholesalers could buy cheap drugs from a low-price country and ship them to a high-price one. Here they would profit by selling at a higher price to a drugs retailer, normally a pharmacist.

Were this practice to become widespread, it would destroy much of the rationale of companies setting up in the high-price nations at all; their factories in these places would quickly go out of business.

Thus big drugs companies put as many impediments as possible in the way of medicines being shipped around the continent. The companies can put pressure on wholesalers and retailers not to deal in imported drugs, for example by cutting retailers out of cut-price deals involving drugs supplied for the home market.

Another widely used method is for companies to give their drugs names which differ according to the nation in which they are produced.

Officials at the European Commission concerned with the plans for the single European market are, however, hoping to see changes in the price setting regimes.

They argue that the range of price setting systems produce inbuilt inefficiencies – such as a welter of factories across Europe working under capacity – and provide a disincentive for companies to "think European." There is the added thought that companies from outside Europe – particularly Japanese ones like Takeda, Yamanouchi and Fujisawa which are anxious to build up strength in the continent – might invoke the free trade principles of the Treaty of Rome to argue that the current practices are illegal.

Officials have as a weapon the transparency directive for pharmaceuticals which the 12 EC nations agreed last year and which is due to be implemented from January 1990. This lays down the principle that all price setting rules in different countries should follow published criteria which are clear and objective.

It says nothing specifically about investment criteria, but many observers expect the commission to insist within a few years that the rules do not discriminate against companies with only limited investment in specific countries.

Some pharmaceuticals companies already well established in Europe argue that – in view of the commission's plan to speed up licensing of new drugs and to give new formulations longer patent protection – the single market's effect on the industry will be positive.

But worries abound from industry leaders. "There is real fear of the unknown," according to a recent report* on the drugs industry and 1992. One concern stands out: that should a pan-European price setting system come in, imports of pharmaceuticals from low- to high-price countries would inevitably occur. That would push drug prices generally downwards, cutting profits and providing less cash for the high levels of R&D needed in the industry. A step in this direction would cause "a dramatic problem" for the industry in Europe, according to Ms Nelly Baudrihaye, director general of the Brussels-based European Federation of Pharmaceutical Industry Associations.

**Pricing and Reimbursements of Pharmaceuticals in the European Community by Donald Macarthur, PJB Publications, 18 Hill Rise, Richmond, Surrey TW10 6UA, UK. £120.*

OVERSEAS NEWS

Scandal forces out Ontario PM's aide

By David Owen in Toronto

A KEY adviser to Mr David Peterson, Ontario's Liberal premier, has been forced to resign, as a damaging scandal over illicit political contributions gathers momentum in Canada's most powerful and populous province.

Mr Gordon Ashworth, executive director of the premier's office, stood down last week when it was revealed that he had accepted a house-painting job and a refrigerator from a company controlled by a family of property developers with strong links to the federal Liberal Party.

The deal was arranged by Mrs Patricia Starr, president of a local charitable foundation, whose name has become known in recent weeks for allegedly channelling more than C$80,000 (£43,000) of the foundation's funds into various political campaigns.

A growing list of Liberal and Conservative politicians, including nine members of Mr Peterson's cabinet, allegedly benefited from these contributions. A judicial inquiry is to be set up to examine the nature of relations between Mrs Starr, the development company and provincial politicians and officials.

The scandal, now known simply as "the Starr affair", appears to have ended any thoughts which Mr Peterson might have entertained of running for the leadership of the federal Liberal Party. Mr John Turner, the current leader, revealed his intentions to step down earlier this year.

Venezuela GDP 'to fall'

By Joe Mann in Caracas

THE Venezuelan government expects the country's gross domestic product to fall by 5.4 per cent this year, a steep decline when compared to a real GDP growth rate of 4.2 per cent in 1988.

The projection was made by the Minister of Planning, Mr Miguel Rodriguez, at a recent meeting with labour leaders, according to press reports. A recession is already being felt in e number of important economic sectors thanks to February's tough economic adjustment programme from President Carlos Andrés Pérez. The government expects renewed domestic growth in 1990.

US to back E Europe reforms

By Peter Riddell, US Editor, in Washington

THE US is preparing a package of measures to support political and economic reform in Poland and Hungary which President George Bush can announce when he visits these countries in two weeks.

Mr Bush has not reached final decisions on the detail, but the main options include a reduction of current trade barriers, assistance in dealing with environmental problems, support for private sector initiatives and backing for the rescheduling of Poland's debts. These are in line with his new approach to Eastern Europe outlined in his Hamtramck speech two months ago.

However, senior administration officials want to avoid raising expectations about a big rescue package.

A consistent message is that the answer to Poland and Hungary's problems lies not in massive new loans but in fundamental structural changes to make their economies more efficient.

In relation to Poland, the main US emphasis is on the Paris Club discussions on rescheduling government-to-governments loans, in which key creditors such as West Germany and France are already closely involved.

Fed accused of rewriting bank law

By Nancy Dunne in Washington

CONGRESSMAN Henry Gonzalez, chairman of the House Banking Committee, has ordered an intensive study of the US Federal Reserve Board, which he says has misinterpreted US banking law by giving banks new powers.

The board last week gave the go-ahead to J P Morgan Securities, an affiliate of Morgan Guaranty Trust Company, to begin raising money for corporations in the public bond market. Several other large banks are expected to get Fed approval to operate securities affiliates.

Congress failed to pass legislation to reform US banking law to grant securities powers officially to subsidiaries of bank holding companies. In the meantime, Mr Gonzalez and other congressmen resent what they see as an agency rewriting US banking law.

In an interview, he complained that the Fed had ventured into the policy-making vacuum in a "fragmentary" fashion.

"Banking policy has become a diffused, shapeless mass," Mr Gonzalez said. "It is time that Congress grasped hold of a system which has grown like Topsy."

Mr Gonzalez' anger with the Fed goes back some years. An attorney and a fiery populist, he once called for the impeachment of Mr Paul Volcker, former Fed chairman. Last year, he took to the House floor to complain that the Fed's open market committee was a secret group meeting in secret.

"We reached a point of saying that there is a human institution outside of the papacy that is infallible. It commits no sins? It commits no mistakes? It would be shocking to try to do anything to remind the Federal Reserve Board that it is a creature of the Congress."

The study, billed as "a review of the Federal Reserve Board's 75 years", will examine the board's functions, including monetary policy-making procedures, supervision of holding companies and services provided to banks. A staff member said: "It will concentrate on making the Fed more accountable to the public."

Since ascending to the committee chairmanship, Mr Gonzalez has called for a "proactive approach to legislative issues" to quell the perception that the committee only reacts to festering problems.

Once the savings and loan bail-out legislation is complete, later this summer, the committee will return to writing bank reform legislation giving banks congressional authority to expand their powers.

Mr Gonzalez has endorsed a comprehensive reform of US financial services laws, voicing concern that "piecemeal" legislative efforts of the past had placed committee members in a position of being for or against deregulation. "That wasn't the issue at all – it was how you deregulate," he said.

Brazil tightens controls on stock market

By John Barham in São Paulo

BRAZIL has announced the indefinite suspension of trading in stock options and index futures in the wake of the country's stock market scandal. The decision is a first step to increasing regulatory rigour over the loosely-controlled equity markets.

The country's stock markets were shaken two weeks ago when one of its largest speculators, Mr Naji Robert Nahas, failed to honour debts of $31.1m (£19.8m). The ensuing scandal forced the resignation of the Central Bank president and the closure of six brokerages with debts of $50m.

Mr Luis Carlos Piva, a director of the government's Comissão de Valores Mobiliários (CVM), which polices the capital markets, said: "These speculative markets in stock options and futures were pulling at the rest of the market. We will have to re-think their role."

Trading in current options and futures contracts, with exercise dates in August, will continue.

Mr Piva said the Commission would re-open the markets only after a "debate over their purpose in the Brazilian economy."

He would press for greater powers for the CVM, which he admitted had failed to keep up with the markets' growing sophistication.

The Commission is also investigating allegations of stock price manipulation, fraud and excessive market concentrations at nine brokerages.

The Central Bank has already announced the liquidation of six of the firms.

The CVM is also investigating comfort letters the Rio de Janeiro exchange issued to banks financing speculators.

SHIPPING REPORT

Demand for big carriers increases

By Kevin Brown, Transport Correspondent

DEMAND for very large and ultra large crude carriers continued to move upwards last week, partly as a result of a large number of private fixtures.

Japanese principals were active in the market, and a number of VLCCs were fixed for consecutive voyages from the Gulf to Japan at between NWS 59 and NWS 65.

Otherwise, specimen single voyage rates were NWS 62.5 for 245,000 tons from the Gulf to South Korea and NWS 59 for 280,000 tons from the Gulf to Singapore.

A *London* major oil company fixed a ship of 310,000 from the Gulf to the West early in the week at NWS 48.5 with an option to the Red Sea at NWS 56 followed by a trip to the West at NWS 55.

Later in the week, a ship of 304,000 tons was fixed to the UK/Continent with an option for western hemisphere discharge at NWS 52.5.

Brokers said the increase in activity appeared to be caused by a fall in the price of crude oil and continued uncertainty over Iran and China.

The stronger trend was expected to continue.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	May '89	Apr.'89	Mar.'89	May '88
USA 000's	6395.0	6546.0	6128.0	6011.0
%	5.2	5.3	5.0	5.2
UK 000's	1803.0	1884.0	1960.0	2427.0
%	6.3	6.6	6.9	6.4
W. Germany 000's	1948.0	2035.0	2178.0	2127.0
%	7.6	7.9	8.4	8.3
	Apr.'89	**Mar.'89**	**Feb.'89**	**Apr.'88**
Belgium 000'e	366.4	380.2	384.4	406.7
%	9.5	10.0	10.2	10.5
Italy 000's	3945.0	3952.0	3837.0	3965.7
%	16.8	16.9	16.4	16.9
	Mar.'89	**Feb.'89**	**Jan.'89**	**Mar.'88**
Japan 000's	1630.0	1510.0	1460.0	1690.0
%	2.3	2.3	2.3	2.6
France 000's	2547.0	2597.0	2661.0	2547.0
%	10.8	11.0	11.3	10.8

Source (except US, UK, Japan): Eurostat

COMPANY NOTICES

Notice of Repayment

BANCO DI ROMA

Incorporated in Italy with Limited Liability

LONDON BRANCH

ECU 125,000,000

Floating Rate Depositary Receipts Due 1992 (the "Receipts")

Notice is hereby given that, in accordance with Condition 5(b) of the Receipts, Banco di Roma will repay all outstanding Receipts at their principal amount on 8th August, 1989 (the "Repayment Date"), on which date interest on the Receipts will cease to accrue.

Payment of interest in respect of Deposits represented by Receipts will be made upon presentation and surrender of Coupons maturing on or before the Repayment Date. On and after the Repayment Date, unless payment is improperly withheld or refused, interest on the Deposits will cease to accrue. The related Coupons maturing after the Repayment Date shall be void. Payments of principal of the Deposits will be made upon surrender of the Receipts and unmatured Coupons as provided in Condition 13 of the Receipts.

Repayment of principal together with accrued interest will be made upon presentation of the Receipts at the Paying Agents on 8th August, 1989, as listed below:

Citibank, N.A., Citibank House, 336 Strand, London WC2R 1HB, Citicorp Investment Bank (Luxembourg) S.A., 16 Avenue Marie Thérèse, Luxembourg, Citibank, N.A., Citicenter, 92073 Paris la Defense, Cedex 36, France, Citicorp Investment Bank (Switzerland), Bahnhofstrasse 63, CH-8021 Zurich, Citibank, N.A., Avenue de Tervuren 249, B-1150 Brussels, Citibank, N.A., Herengracht 545/549, Amsterdam, Citibank, N.A., Neue Mainzer Strasse 40/42, D-6000 Frankfurt/Main 1.

Mitsubishi Finance International Limited
Agent

Banco di Roma
London Branch

26th June, 1989

PUBLIC NOTICE

IN THE MATTER of ESLEA HOLDINGS LIMITED AND IN THE MATTER of THE COMPANIES (SOUTH AUSTRALIA) CODE

The creditors of the abovenamed company are required on or before the 31st day of July, 1989, to prove their debts or claims and to establish any title they may have to priority by delivering or sending through the post to the Scheme Administrator at the undermentioned address an Affidavit verifying their respective debts or claims. In default they will be excluded from the benefit of any distribution made before such debts or claims are proved or such priority is established and from objecting to any such distribution.

Form of proof may be obtained from the undersigned.

DATED this 19th day of MAY, 1989.

I.D. FERRIER
Scheme Administrator
C/- Ferrier Hodgson & Co.,
Chartered Accountants,
7th Floor, 55 York Street,
SYDNEY, NSW 2000.

Tel: (02) 234 4565
DX: 1122, SYDNEY

FH

UK NEWS

GPT set for move into US market

By Terry Dodsworth, Industrial Editor

GPT, the British telecommunications group which faces a merger with Siemens of West Germany, has launched a plan to break into the multi-billion-dollar US market for main public telephone exchanges.

The move will give the company the chance to sell parts of its System X exchange in North America for the first time. This will bring GPT into direct competition with Siemens, which has spent several years in an expensive effort to market its own large exchange to the US telephone operating companies.

System X is one of the new generation of digital exchanges whicb are being installed throughout the industrialised world. Developed for British Telecom, it has had only limited success so far overseas, and has yet to make a significant breakthrough in a large developed market.

Siemens has sold its big public exchange in several export markets. It has also had a few orders in the US, but it is still struggling to establish itself as the third main supplier to US telephone companies after American Telephone and Telegraph (AT & T) and Northern Telecom of Canada.

GPT's new plan of attack on the US is based on the position it has established in the American market in a venture with Stromberg Carlson, a Florida-based company acquired in the early 1980s.

Stromberg has its own digital switch, the DCO, which was designed for small rural telephone exchanges. GPT has begun to develop the technology of the DCO amd System X together, with the aim of increasing the power of the DCO so that it will be saleable in the US market for larger urban exchanges.

"We have been talking to the American telephone companies for about 10 months now," says Mr John Ziemniak, director of engineering at GPT. "We have approval for our technology, and we have the manufacturing capacity in the US. So now we are aiming for the 56m-line market in the exchanges that are being replaced."

Mr Ziemniak says that the two companies are working towards one family of switches based on a single technology. As far as possible, he adds, they will have common hardware, and software resources will be combined as well.

GPT also believes that software developed for innovative new services in the US will be invaluable in the UK.

The UK company has continued with this convergence programme, bringing together the development resources of GPT and Stromberg, despite the strong possibility of the merger with Siemens.

It is by no means clear how far Siemens would become involved in the running of GPT if there is a successful outcome to the West German group's bid for Plessey, the UK electronics group, made in conjunction with General Electric Company, also of the UK.

Railway union calls for urgent talks to avert strike over pay

By Fiona Thompson

MR JIMMY Knapp, general secretary of the National Union of Railwaymen, last night appealed to British Rail to meet him for immediate talks in a bid to avert the 24-hour strike planned for this Wednesday.

Speaking in Newcastle where the union begins its annual conference this morning, Mr Knapp said he would meet the BR Board at the Newcastle offices of the conciliation service, Acas, or return to London for talks "at any time."

But the NUR leader did not hold out much hope of success in resolving the dispute over BR's imposed 7 per cent pay award and the proposed abolition of national pay bargaining.

"At the moment, the strike is still on," he said.

Mr Knapp said more money was certainly available. "We expect BR to announce record profits of £500m-plus on July 5. I challenge them to say how much of that profit they will invest in the workforce."

From this morning all decisions on the dispute move to the conference floor, as the union's executive stepped down on Saturday.

Mr Knapp confirmed that the conference had the power to propose stepping up the dispute from one-day strikes to full-scale action. However, an indefinite stoppage would require a ballot of all 70,000 members.

The executive last Thursday called for a 24-hour strike this Wednesday and on July 5. Conference could, under the strike ballot, extend this to three 24-hour strikes a week, for example. Bnt Mr Knapp said he would not suggest any change to the agreed plans.

TGWU yields on local port deals

By Charles Leadbeater, Labour Editor

THE leadership of the TGWU transport union will take a conciliatory approach to shop stewards who have signed local agreements with port employers in defiance of the union's policy of seeking a national agreement to replace the National Dock Labour Scheme.

Mr Ron Todd, the TGWU's general secretary, speaking in Brighton before the union's biennial delegate conference, said such local agreements would have to be embraced within an agreement to set national standards for employment conditions to replace the Dock Labour Scheme which is abolished next month.

He said union officials would be contacting local shop stewards to determine how far they had got in talks. Mr Todd said there was no question of stewards being disciplined.

Mr Todd said: "We are not talking about jumping on people but persuading them through arguments about the principles of the dispute."

Stewards at several ports have been involved in talks with local port employers and some deals have agreed.

The union's 9,400 registered dockers will start balloting this morning on whether to stage a national strike over the union's claim for a national agreement to replace the statutory scheme which will be abolished next month.

Wimbledon coverage 'to go ahead'

By Michael Smith

ONE of the three broadcasting unions said yesterday it was almost certain that coverage of the Wimbledon tennis championships – which is sold to countries around the world – would not be affected by their pay dispute with the BBC.

The National Union of Journalists said it was also unlikely that it and the ACTT and BETA unions would this week be staging lightning strikes of the type which disrupted the corporation's programmes last Friday and Saturday.

The decision to pull back from disrupting coverage of the championships has been influenced by management's contingecy plans to ensure coverage went ahead in the event of industrial action.

The emergency measures included taking coverage from the American network NBC.

The NUJ said that "the best thing for us to do is look for another target."

Wimbledon is one of the biggest annual sporting events covered by the BBC. As well as millions of British viewers, the corporation's pictures are taken throughout Europe, the United States, Japan, and Australia.

Contracts dispute threatens plans for power privatisation

By Max Wilkinson, Resources Editor

THE Government is being asked to settle a dispute between the electricity industry's generation and distribution arms about the extent to which industrial consumers will be able to shop around for power after privatisation.

Some large industrial consumers have complained that they are being frozen out of the talks and several have refused to renew contracts with their area boards this year until the issue is settled.

The argument centres on the contracts now being negotiated between the area boards which will become private distribution companies and the two generating companies which will succeed the Central Electricity Generating Board.

These talks have proved more difficult than the Government hoped, and there is now doubt whether the detailed contracts and the compnter programme needed to organise the new power market can be in place before the system is dne to start operating on October 1.

The central issue still unsolved is the extent to which area boards will risk losing their large customers to the generating companies if vigorous competition is permitted in this market.

Since most of the growth in electricity demand is expected to be in the industrial and commercial sector, some of the area boards fear they could be pushed back into the relatively stagnant business of selling electricity to domestic consumers at regulated prices.

They also fear that if the two large generating companies, National Power and PowerGen, build up large-supply businesses in the industrial and commercial sectors, they will be able to freeze out new entrants into the market.

To counter the strength of the two generating companies, the area boards have been seeking detailed contracts which would allocate output of specific power stations or part of their output to each board.

However, the contracts now envisaged will require area boards to pay the capital costs of power plant under contract to them, as well as fuel costs.

A fierce dispute abont the size of the capital cbarge is still unresolved. The area boards and the Government are at odds over the exact figure and the element of profit which should be included in the charges.

Struggle over privatisation, Page 14

Universities 'making too little on contract income'

By David Thomas, Education Correspondent

MANY OF Britain's universities are making hardly any money on their research contracts with industry and government departments, a study has revealed.

Universities have been under pressure from both their own vice-chancellors and the dons' union to start charging realistic prices for research activities.

The issne surfaced during the recent pay dispute, when the Association of University Teachers argued that universities could afford to pay their dons more if they priced their services more aggressively.

The University Grants Committee last year calculated that universities could boost their income by almost £100m a year if they started charging appropriate rates for contract work.

However, the latest figures for 1987-88 show the message is slow in getting through.

They also reveal marked disparities between universities, ranging from Salford which generated a surplus of 70.3 per cent to Strathclyde whose surplus was just 1.7 per cent.

The figures are compiled from financial returns to the Universities Funding Council by Mr Lawrie Marsh, a senior official at Southampton University.

UK NEWS

Economy facing 'long slog over the medium term'

By Peter Norman, Economics Correspondent

THE BRITISH economy faces a "long slog over the medium term" to correct the excesses of last year's boom, according to the London Business School.

In its latest thrice-yearly economic forecast, published today, the LBS said that the economic outlook has deteriorated since its last report in February forecast a soft landing for the economy.

It now expects economic growth to rise by less than 2 per cent this year compared with the 3 per cent real growth it forecast for UK gross domestic product in February. Inflation is now expected to be as high as 7 per cent by the end of this year and average more than 6 per cent in 1989 compared with February's forecast of an average 4.8 per cent inflation rate this year.

Tha LBS now believes Britain's current-account balance-of-payments deficit will widen to £15.7bn in 1989 from £14.6bn in 1988. In February, the LBS said it expected a £12bn deficit this year.

The LBS said it expected inflation to fall below 5 per cent by the end of 1992, with the current-account deficit less than £10bn. That will be after four years of tight fiscal and monetary policy and slow growth in output and demand.

Looking ahead to next March, the LBS said the 1990-91 Budget will have to be neutral to reduce inflation and the current account deficit over the medium term. Only modest tax cuts – cutting the basic rate to 24 per cent in 1991 and 23 per cent in 1992 – will be feasible thereafter.

While the Treasury has forecast a £14bn public-sector debt repayment for 1989-90 declining stesdily towards balance by the mid 1990s, the LBS predicts a £15.5bn budget surplus for this financial year, growing to £20bn in 1992-93.

The main LBS forecast assumes that British bank base rates have peaked at 14 per cent. But it warns that wage developments might pose a serious danger. If wages are bid up to compensate for higher retail price inflation, the battle to control inflation would be more protracted than forecast, and output weaker.

The LBS said inflation might drop to around 3.5 per cent by 1992 if Britain entered the exchange-rate mechanism of the EMS with a sterling exchange rate of around DM 3.1 to DM 3.2, equivalent to 94 on the Bank of England'e trade-weighted sterling index. Achieving that level for the pound, however, would require an increase of 1 percentage point in British bank base rates from their present level.

In the short term, participation in the ERM would mean that inflation would be higher and growth slower than if Britain avoided full EMS membership. But by mid 1991, both inflation and interest rates would be 1 percentage point lower than if Britain stayed outside the ERM.

Economic Outlook, Vol 13. No. 9. Gower Publishing, Gower House, Croft Road, Aldershot, Hampshire GU11 3HR. Annual subscription £135.

ECONOMIC FORECASTS

	1988	1989	1990	1991	1992
GDP	4.3	1.9	2.7	2.5	1.8
Inflation	5.0	6.1	6.2	6.0	5.5
Consumers' Expenditure†	6.5	3.2	2.2	2.3	1.6
Total Fixed Investment†	11.8	5.7	3.2	2.9	2.7
Gen Govt Consumption	0.5	1.1	0.9	0.9	0.9
Stockbuilding†‡	1.9	0.9	-0.4	0.9	0.9
Exports†	-1.0	4.3	7.2	2.7	1.8
Imports†	11.9	6.8	2.8	2.5	1.1
Sterling index*	96.0	94.0	90.0	90.0	90.0
PSDR (£bn,finan years)	14.4	15.5	15.6	17.5	20.0
Current Balance (£bn)	-14.6	-15.7	-13.6	-11.2	-8.9
UK Adult Unemployment (m)	2.3	1.9	2.0	1.9	1.9

Percentage change unless otherwise shown. † Percentage change in volume. ‡£bn, 1985. *1985 = 100.

Source: Economic Outlook 1988-1992, June 1989.

Keep policy on income tax, advises Liverpool

By Peter Norman

THE BRITISH economy should resume robust growth in early 1990 as inflation falls and interest rates are cut, the Liverpool Quarterly Economic Bulletin says.

However, in its leading article, Professor Patrick Minford says it is essential that the government sticks to its policy of cutting income tax and avoids exchange-rate targeting in the rest of this year.

The Liverpool Research Group in Macroeconomics, headed by Prof Minford, stands apart from the consensus of economic forecasters in Britain who see slow growth and disinflation ahead. The group expects gross domestic product will grow at annual rates of around 3.5 per cent in the three years starting in 1990 accompanied by a steady decline in retail price inflation to 1.4 per cent by 1992.

The group assumes the standard rate of income tax will be cut to 20 pence in the pound over the next two Budgets from the present 25 pence rate.

The group is optimistic about jobs, forecasting a drop in the annual average rate of unemployment to 1.2m in 1992 from 1.7m this year.

Economists urge entry into EMS

By Peter Norman

BRITISH membership of the Exchange Rate Mechanism (ERM) of the European Monetary System would be the best way of restoring the credibility of UK monetary policy, according to the London Business School.

In an article published with the latest four-monthly LBS forecast, two of the school's top economists called on the Government to name a firm date next year for British entry toto the ERM.

Mr David Currie, the director of the LBS Centre for Economic Forecasting, and Mr Geoffrey Dicks, a senior LBS economist, said the Government could make a virtue out of the recent statement by the Chancellor, Mr Nigel Lawson, ruling out UK participation in the ERM until the second half of 1990 at the earliest. It should encourage a debate in the interim period about the appropriate exchange rate for entry, with the aim of guiding the foreign exchange market.

The LBS economists said the Government should make clear that it would favour a high exchange rate with a commitment to low inflation.

Once in the ERM, it should rule out the possibility of devaluing Sterling in any EMS realignment.

Those moves would provide a "firm non-discretionary anchor for both monetary policy and inflation expectations", and in the long run would prevent British inflation rates from diverging greatly from West Germany's lower inflation rate.

The two authors argued that a reassertion of the Government's Medium Term Financial Strategy (MTFS) would not restore credibility to the Government's monetary policy because it would not resolve uncertainty caused by the differences over policy between the Chancellor and the Prime Minister.

Furthermore, Britain's relatively poor inflation record over the past decade, together with twists and turns in past versions of the MTFS, would fail to convince the financial markets.

"Too mnch judgment and discretion is inevitably involved in implementing a restated MTFS for it to carry conviction," they said.

Although Messrs Currie and Dicks support British entry into the ERM, they are less enthusiastic about economic and monetary union in the European Community. British membership of the ERM at the cost of locking the UK into a long-term monetary union with undesirable features "would not be e worthwhile bargain", they said.

They added that the Government is right to hesitate before committing itself to the second and third stages of the Delors proposals for moving towards economic and monetary union.

However, the Government should not reject the first stage of the Delors process, which involves full membership of the EMS.

To do so would risk being sidelined in Europe and make the Government less able to block the second aod third stages of the Delors report.

Growth 'will slow, with squeeze on profit margins'

By Simon Holberton, Economics Staff

THE BRITISH economy is set for a period of slow growth with company profits bearing a lot of the brunt of the contraction in activity, according to the Ernst & Whinney Item Club.

The Item Club, which uses the Treasury's model of the UK economy on which to base its forecasts, says that growth in domestic spending will slow sharply during the second half of this year and remain flat for most of 1990.

It says the corporate sector will bear much of the pain. A very sharp squeeze on domestic profit margins will reduce growth in profits from e forecast 10 per cent rise to a 1 per cent gain in 1990.

Inflation will fall during this year, hnt not by much. By the last three months of the year the retail prices index will be 7.4 per cent higher than a year ago, much higher than tbe Chancellor's forecast of 5.5 per cent in his Budget.

In 1990, the inflation outlook improves and by the end of the year Item expects the inflation rate to have fallen to around 5.5 per cent.

Item expects that the weakness of the pound will force the Government to raise interest rates to 15 per cent.

It expects a current-account deficit of £19bn this year, further falls in unemployment figures and a public-sector borrowing requirement surplus of £17bn.

Its longer-term view is that it will take until 1991 before the British economy returns to balance, "producing an unfavourable economic background to the next general elections if they were to be held then."

Hill Samuel offers 'all-in' manager fees

By Barry Riley

IN WHAT is being heralded as an attempt to clean up charging practices in pension fund management, Hill Samuel Investment Management (HSIM), the main fund-management arm of the TSB Group, intends to promote an "all-in" fee scale.

However, HSIM clients opting for the new scale will face sharply higher nominal charges, which could amount to 0.33 per cent for a fund of £100m. In return, the managers will waive all extra charges. Other companies quote only around 0.15 per cent for £100m portfolios.

Clients will be able to remain on the old scales if they wish, and bear hidden costs as in the past. Alternatively, HSIM is keen to quote performance-related fees, which are proportional to the managers' ability to match or beat an agreed performance benchmark.

According to Mr Alan Henson, pension fund director at HSIM, the move will allow better financial planning by clients and will permit "elimination of any hint at all of conflict of interest".

HSIM has commissioned independent market research which reveals that true costs on an industry-wide basis are as much as 75 per cent above the notional charges, which for large portfolios are typically a little under 0.2 per cent of funds managed.

The main sources of additional costs are:

- Commissions paid to brokers on share transactions.
- Overseas turnover surcharges of typically about ½ per cent which are often imposed on dealings in foreign equities.
- Extra management charges loaded on specialised in-house unit trusts, for instance property or small company funds, into which a proportion of assets may be placed.
- Separate administration charges which are imposed in some cases.

There has been concern on the part of some pension funds and consultants that sncli charges can lead to distortions, inclnding excessively high turnover or "chnrning" in overseas portfolios and unduly heavy use of houses' own funds, as managers seek to gain extra revenue. According to Mr Henson: "When pitching for new clients there is a great deal of inquiry about exactly what is being charged. We are moving a step ahead of tha consultants."

He says that a serious concern at the present time is to defend traditional "balanced" management against competition from specialised advisers.

Hill Samuel is launching its full disclosure campaign on the strength of two excellent years after an earlier lean spell.

Institutes plan merger

THE INSTITUTE of Chartered Secretaries and Administrators and the Chartered Building Societies Institute are considering a merger.

The two institutes, which have been closely associated for a number of years, said yesterday that they believed a merger would improve the development of personnel for the financial services industry.

A steering group has been set up to make recommendations next year on the plans for a merger.

UK NEWS

Bank accounts freeze extended in fraud inquiry

By Raymond Hughes, Law Courts Correspondent

THE HIGH Court yesterday contioued orders freezing about £245,000 held in bank accounts in England which the Bank of Crete claims was transferred from it as part of a massive frand.

The court was told by Mr Ian Geering, counsel for Bank of Crete, that about $200m (£128m) had been siphoned off from it by, among others, Mr George Koskotas, the bank's former chairman, and his brother Stavros, a former director of the bank.

The bank filed suit in the UK, alleging that the brothers diverted, misappropriated and misapplied bank funds.

In January the bank woo an order preventing the brothers from disposing of up to £34m of their own assets or assets beneficially held by two companies, Meditfin International and Greek Investment Company.

Subsequent orders were made freezing the English bank accounts of a number of other people, most of them Greeks, who have also been sued by Bank of Crete.

Asking for the freeze to be cootinued, Mr Geering told Mr Justice Vinelott that an investigation into the frand by a commissioner appointed by the Governor of the Bank of Greece had run into difficulties becaose of steps taken by George Koskotas to "corrupt" Bank of Crete's records.

It was alleged that documents were shredded and computer records of certain deposit acconnts rewritten, pntting them in George Koskotas's name. At the time, deposit accounts were immune from scrutiny under Greek law.

It was found that substantial sums had been transferred to the US, where they were the subject of legal proceedings.

Smaller sums were traced to accounts in banks in England, against which Bank of Crete was to seek disclosure orders to obtain information about the whereahouts of other money, Mr Geering said.

Last October fraud charges were filed in Greece against George Koskotas, who is associated with Pasok, the Greek Socialist party.

George Koskotas, charged with embezzling more than £120m, was arrested in the US and is awaiting extradition proceedings.

The turbulent history of a mini-conglomerate

Bestwood is facing a DTI inquiry. Andrew Hill looks at personalities and troubles behind the move

MR Tony Cole was relaxing at a health club last week, watching the Test Match on television. His composure was in sharp contrast to the agonies being endured hy Bestwood, the mini-conglomerate he helped build up.

On Thursday, the group appointed its third chairman – and lost its fifth director – within 12 months. A day later, the Department of Trade and Indnstry said its inspectors would look at the affairs of the company and investigate dealings in Bestwood shares.

The DTI also wants to investigate Atlanta Fund Managers, parent company of Bestwood's financial services subsidiaries, most of which were sold after the October 1987 stock market crash.

Part of the investigation will be conducted under section 432 of the Companies Act, the catch-all clanse allowing inspectors to look, among other things, at the possibility of fraud or the withholding of information from shareholders.

Section 432 investigations currently under way include those into Barlow Clowes, James Ferguson Holdings, Blue Arrow and Sound Diffnsion.

The recent history of Bestwood is very much the history of Mr Cole, a former stockbroker. Mr Cole said last week he had nothing to fear from the DTI investigation.

He bought into Bestwood, which had little more to its name than a printing subsidiary and a stake in a drilling company, in early 1985, becoming chairman soon afterwards. It was, as he put it at the time, "a very interesting investment situation."

As a wheeler-dealer, Mr Cole had never been popular with the City, hut he set about putting Bestwood to work. The hull market began its charge, and Bestwood started making acquisitions for shares.

Bestwood's strategy with larger companies tsnded to involve buying a substantial stake – often through Atlanta Fund Managers – and then trying to wrest control from existing management, via a bid or special shareholder meeting.

Some of the approaches were unusual. They included an andacious hnt unsnccessful offer for the Country Gentlemen's Association – which provided financial services operation for 27,000 members drawn from the country gentry – and a vain attempt hy Mr Cole to win a place on the board of Buckley's, the small Welsb brewery.

Bestwood's 28 per cent stake in Buckley's was later sold to a company owned by Mr Guy Cramer and Mr Peter Clowes, who headed the collapsed investment group Barlow Clowes.

JANUARY-FEBRUARY 1985 – Tony Cole buys 29.9 per cent of Bestwood, becomes chairman and begins to expand the company

OCTOBER 1987 – stock market crash; Bestwood begins to sell financial services subsidiaries

MARCH 1988 – Bestwood is tipped by Business to be top British company in the year 2000; announces £378,000 loss for 1987

JULY 1988 – Cole resigns as chairman and is replaced by Anthony Holmes

NOVEMBER 1988 – Cole announces he will requisition EGM to oust Holmes and install himself as a director

DECEMBER 1988 – Bank of England intervenes, advising Bestwood that it doubts Cole's suitability as a director of an authorised institution; Cole issues libel writ against Holmes

MARCH 24 1989 – Bestwood announces £2.6m profit for 1988

MARCH 31 1989 – Cole fails to oust Holmes at EGM

APRIL 1989 – Cole writes to Jim Furlong with bid approach

JUNE 24 1989 – Holmes resigns as chairman and is replaced by Jim Furlong

JUNE 25 1989 – DTI appoints inspectors at Bestwood under sections 432 and 442 of the Companies Act, and at Atlanta Fund Managers under section 432

In particular, Mr Cole built up the financial services and property services operations, which helped Bestwood to more than double its 1986 profits to £2.43m before tax.

Large investors took an interest, among them Mr Terry Ramsden, head of Glen International, a private investment company that later ran into serious financial difficulties. Glen bought and sold a 15 per cent stake.

By this time, Bestwood, a classic mini-conglomerate, had moved into operations ranging from drilling contracting via property development to motorbike financing.

But Bestwood's securities trading operations were badly hit hy the October 1987 stock market crash, and eventually sold. The group found it could no longer do deals for paper.

Even as the April 1988 edition of Business magazine hit the news stands, tipping Bestwood to be the top British company in the year 2000, the group was announcing that it had plunged into the red. It revealed that it lost £378,000 before tax in 1987.

In July of last year, Mr Cole resigned as chairman, handing over to Mr Anthony Holmes. He said the group would benefit from a different style of management. Last week, he said his departure had also been due to "personal financial circumstances."

For anyone else, that would have been that. Bnt Mr Cole still held 10 per cent of the shares and last November he hoonced back, pressing to return to the board as chief executive and forcing a special shareholder meeting – a move reminiscent of his tactics two years earlier at Buckley's Brewery.

Mr Cole was keen for a fight, but a City chastened hy the crash seemed to have had enough of the wheeler-dealer.

In a letter sent to Bestwood in December, the Bank of England said it had "serious doubts regarding the suitability of Mr Cole for s position as a director, controller or manager of an anthorised institution."

It was probably the ultimate seal of disapproval and at a six-hour shareholder meeting in March, Mr Cole failed to oust Mr Holmes.

In a final baroque twist, it emerged lsst week that Mr Holmes had signed his letter of resignation before the meeting even began. Last week he handed over to Mr Jim Furlong, a director whose 25 per cent stake in the company had, crucially, been cast against Mr Cole at the meeting.

Meanwhile, almost unnoticed, Bestwood has returned to profit: the company slimmed down and made £2.6m before tax last year. But the shares still languish at less than a quarter of their pre-crash price and Mr Cole believes shareholders have had a raw deal.

Three weeks after the shareholder meeting he wrote to Mr Furlong with a tentative hid approach valuing the company at more than twice its current price. He has not ruled out the possibility of a formal offer and says he will pursue Mr Holmes through the courts with two libel writs.

The only question is whether Mr Cole's long-running affair with Bestwood can ontlast the DTI investigation. The department is not noted for its speed: one section 432 inquiry is still going, seven years after the inspectors started sifting evidence.

Computing sector given covert boost

By Alan Cane

CONCERN that Britain's computing services companies are not yet geared to competing successfully against foreign companies for large contracts has prompted a government "initiative" that comes close to contravening the spirit, if not the letter, of international directives on open competition.

The covert campaign to boost the effectiveness of UK companies is being orchestrated by the Department of Trade and Industry and the Central Computer and Telecommunications Agency, the Government's chief source of advice on computers and telecommunications.

It takes the form of quiet, informal advice to UK companies that their chances of securing big government contracts will be improved if they collaborate with competitors.

One software house managing director, who did not want to be named, said: "Essentially they are saying that they will put extra votes your way for an all-British consortium."

Companies are encouraged to discuss their bids with the DTI and CCTA, which in turn give advice and information to help them to win contracts.

While the companies involved accept that government contracts would not be awarded on anything other than merit, there is a feeling that the initiative comes close to contravening the spirit of the General Agreement on Tariffs and Trade and European Community directives.

However, there is a long-standing grievance that while open competition rules apply in the EC, only Britain sticks to the letter of the law.

The Government has decided to spend some £300m this year, rising to £600m by 1994, in procuring computing services from outside its own data processing departments.

Some of the larger UK companies, including Systems Designers and Scicon (now merged into SD-Scicon), have met with the DTI to emphasise that UK companies need to win a substantial share of that spending. One of the largest of recent contracts, the Government Data Network (GDN), expected to be worth between £200m and £300m over 10 years, has been awarded to a consortium of UK companies led by Racal and Scicon.

But there is a worry that aggressive US computing services companies such as EDS, bigger than any European competitor and which has been particularly active, could pick off the cream of health, social services and Inland Revenue contracts yet to be awarded.

Quality Sunday newspaper to set launch date

By Raymond Snoddy

THE SUNDAY Correspondent, the planned quality newspaper, will announce its launch date today. Late September is favoured for the launch of the £18.5m title.

The Chicago Tribune is among institutional investors. Others include the Prudential, N. M. Rothschild, Hambros and Clydesdale banks, Eagle Star and Globe Investments.

Fifty presentations have now been made to more than 100 advertising agencies.

"Most of the agencies said it was a type of publication they wanted to be in," said Mr Nick Shott, chief executive of the Correspondent.

Heads of agreement have been signed for printing contracts and production of "dummy" copies of the Sunday Correspondent will begin in the middle of August.

The paper is aiming for a circulation averaging 360,000 in its first year.

UK NEWS

Poor poll rating adds to Tories' mid-term worries

By Philip Rawstorne

AN OPINION poll giving Labour a 14 per cent lead – more than double its margin of victory in the European elections – yesterday added to the Conservatives' mid-term anxieties.

The shift in opinion suggests that Labour's policy review and the subsequent two months of continuous campaigning have gone a long way towards restoring the party's electoral credibility.

The Harris poll in the Observer suggests that 42 per cent of voters expect it to win the next general election; 59 per cent expect the Conservatives to lose.

According to the poll, Labour's support has risen to 48 per cent, compared with the Conservatives' 34 per cent. Labour apparently benefited from a rapid fall in support for the Green Party, which occupied third place with 8 per cent, little more than half its share of the vote in the European election.

Conservative backbenchers are looking for urgent government action to restore the party's popularity.

Mrs Thatcher's performance during the Madrid summit will be watched with some concern from Westminster. Party morale would be further shaken if she fails to come to terms with other European leaders.

Conservative MPs are looking to an early resolution of the argument between the Prime Minister and Mr Nigel Lawson, the Chancellor, over economic policy; a Cabinet reshuffle within the next month or so; and the appointment of a new party chairman.

Mr Norman Tebbit, a former Tory chairman, reviewing the list of possibles for the post, yesterday suggested Mr Norman Fowler, Employment Secretary, as "a good runner."

Mr Paddy Ashdown, leader of the Social and Liberal Democrats, renewed his attempts at the weekend to rally the party after its disastrous Euro-election results.

The Harris poll yesterday put the SLD in fourth place with 6 per cent.

In a speech to Democrat councillors in Swansea, Mr Ashdown said Britain needed a party to stand up for ordinary citizens against the power of the big battalions of Labour and the Tories. "We are that party," he said.

Mr Ashdown said: "We have survived the great tests thrown at us this last year. We have emerged tougher and wiser. We must not spend more time looking back. Now we start moving ahead."

Mr Simon Hughes, Democrat MP for Bermondsey, denied reports yesterday that he may defect to the Greens. "My immediate plans are more directed at making my party a radical environmental and liberal party which I believe this country needs," he said.

Both Mr Hughes and Mr Alan Beith, the Democrat treasury spokesman, renewed their calls yesterday for the restoration of "Liberal" to the party's short title.

Mr Beith said: "The party seems almost carelessly to have thrown away the essential element of its identity within months of being created instead of capitalising on liberalism and social democracy.

"A large majority of our MPs believe that the name 'Liberal' is of crucial importance to the party."

Merger of accountants to produce world No 1

By John Edwards

UK PARTNERS of Ernst & Whinney and Arthur Young voted "overwhelmingly" in favour of merging the two accountancy groups at separate meetings at the weekend.

The go-ahead was given for a new firm, Ernst & Young, to start operations from September 1. It will have a total staff of 8,090 spread among 33 offices in the UK.

Mr Elwyn Ellidge, senior partner of the new firm and joint chairman of the international Ernst & Young group, said yesterday that he was "absolutely thrilled" by the fact that over 99 per cent of the 445 partners in the two firms had voted in favour.

It was a "day to savour", he added. The very positive backing to the merger given by the partners in UK, and the US (which on Friday also voted 99 per cent in favour) would encourage members of the two groups in other parts of the world to support the merger. The South African partners also backed the merger at the weekend.

Although some countries may prefer not to go ahead, the yes vote in the UK and US means that Ernst & Young will almost certainly become the biggest accountancy group in the world. It will have 70,000 employees; 6,100 partners and annual revenue of $4.3bn (£2.74bn). Unless there is a serious fallout, which looks unlikely after the strong supporting votes in favour of the merger in the US and UK, it will outstrip the present biggest group - KPMG.

In the UK the two groups at present both have separate offices in many areas, including London. But Mr Ellidge said that any merging would take place gradually.

Class of '89 learns how to think for itself

David Thomas joins an executive visiting a school that prepares pupils for industry

THE MOMENT Tom Edge walked into the classroom of Pennywell comprehensive school, set in one of the most run-down estates in Sunderland, he was struck by the differences between schools today and those he remembers from his childhood.

Mr Edge, joint managing director of I. J. Dewhirst, one of the biggest clothing suppliers to Marks and Spencer, regrets that he has not found time to visit a school before. Not only does Dewhirst, a large local employer, have a direct interest in Pennywell, but Mr Edge is trying to improve training in his sector as chairman of the Clothing Industry Training Board.

That Mr Edge is spending the morning with the teachers and pupils of Pennywell is largely due to Business in the Community, which has organised a posse of senior executives to visit schools in run-down urban areas throughout the country. They are to report their findings to the Prince of Wales at a BiC conference on business-education links in London this Wednesday.

But before that, the visitors to Pennywell need to overcome their culture shock. For a start, the fourth-formers are not studying anything recognisable to most adults as a school subject. They are working on a project in "integrated humanities," which draws together threads from traditional disciplines such as history, geography, art and English. On this two-year course, the Pennywell children study five topics: the family, people and work, persecution and prejudice, mass media and pollution and conservation.

Mr Edge has dropped in on a session on pollution, but the next surprise is how far removed it is from a traditional lesson. The 20 children are engaged, either on their own or in small groups, in one of the activities listed on the blackboard: writing a letter, drawing a map, designing a poster, composing a speech.

Tom Edge with an enthusiastic pupil at Pennywell School

The teacher, Mrs Margaret Robson, does not address a silent classroom from the front of the form. Her role is that of a facilitator or manager, encouraging a girl, who is writing a letter to the local council asking for a bottle bank, for a few minutes before moving on to a boy drawing a poster about leaded petrol.

Pennywell's teachers defend this method as more likely to develop the skills of understanding, investigating, evaluating and communicating than did the old rote-learning methods.

The school's fourth form certainly seems absorbed in its pollution project. The children give hardly a second glance as Mr Edge wanders from group to group. This style of work seems particularly suitable for low-ability children, easily bored by the old didactic, fact-learning and essay-based approaches.

Yet, to an untrained adult, much of the work looks undemanding. A girl is writing a speech on the reasons for joining Greenpeace which appears to consist of a few sentences laboriously copied from a Greenpeace fact sheet. Some of the children working on the posters are doing little more than filling in stencils.

Mrs Robson admits that the new methods might hold back the high fliers, which at Pennywell means a pupil aspiring to a grade B in the GCSE.

But that part of the visit has served its purpose for Mr Edge. Unlike some other employers, he welcomes the new teaching methods. "We want people to think for themselves when they join industry," he emphasises.

Moreover, Mr Edge comes away from Mrs Robson's lesson struck by a deeper point. He wonders whether the training given to young workers, on the Youth Training Scheme and the like, is out of joint with the teaching they receive at school. At school, teachers encourage children to think for themselves, but at work many of the training schemes take the old do-as-you-are-told route.

Two other strands emerge from Mr Edge's visit. First, we hear from Mr David Wilkinson, Pennywell's brisk and efficient head teacher, about how to raise standards in inner-city schools.

Mr Wilkinson has spent his career in schools with difficult catchment areas in London, Leeds, Manchester and Wakefield. At Pennywell, male unemployment can reach 70 per cent in parts of the surrounding neighbourhood, he says.

Burglaries and other crimes are among the highest in the north-east. The evidence of deprivation is all around. The school overlooks a terrace of boarded-up houses; the children come to school in frayed jackets and battered sneakers and the school buildings are chipped at the edges.

Yet Mr Wilkinson is optimistic about measures introduced to combat these ills. Parents, most of whom have no books at home, are encouraged to come into the school to read with their children.

A one-to-one teacher-pupil counselling system tries to nip early signs of trouble in the bud. At Pennywell's prize day, a third of the 900 pupils are given trophies to take home as rewards for achievements such

David Wilkinson: raising standards in schools

as effort and attendance.

Finally, Mr Edge is told about Pennywell's links with the world of work. He is particularly impressed by the new system of records of achievement, by which all pupils, even the least academic, will be able to show prospective employers a record of everything they have achieved at school.

Dewhirst's managing director debriefs a group of confident 16-year-olds about their recent work experience. Most appreciated the chance to broaden their narrow range of experience - "I had never answered the phone to someone before," one said - although there were grumbles about being saddled with all the dullest work and not meeting many people.

One girl, fresh from a week at Dewhirst, told Mr Edge: "It would have been a good idea to have met the managing director."

Stringfellow poised to sell Hippodrome club for £7m

By David Churchill, Leisure Industries Correspondent

MR Peter Stringfellow, the flamboyant 48-year-old London nightclub owner, is poised to sell his Hippodrome night club near Leicester Square in the West End of London to European Leisure, the fast-growing leisure company, in a deal worth more than £7m.

The acquisition is expected to be finalised tomorrow unless a counter-bid emerges from rival club operators Mecca Leisure or First Leisure.

The Hippodrome, one of Europe's best-known nightclubs, was boosted recently by a weekly ITV variety show televised from its premises.

If European Leisure completes the deal it is likely to use it as a springboard for further night club expansion in the UK and on the Continent.

Leisure industry analysts believe that the highly fragmented night club industry is ripe for exploitation by well run leisure companies. There are more than 600 clubs in the UK with an estimated total turnover of over £500m a year.

The Henley Centre for Forecasting says that in spite of demographic changes leading to fewer young people in the 1990s, "there will still be 6.3m 17 to 24-year-olds in 1993 and spending among this group is likely to be boosted as their wage rates are pushed up due to labour shortages."

Mecca Leisure, which with 34 night clubs and 12m admissions a year is the UK's leading night club operator, was understood to be interested in the Hippodrome.

But it is Mr Michael Ward, European Leisure's chief executive, who is understood to have put in the successful bid for the Hippodrome. Mr Ward emerged as a leisure entrepreneur in 1987 when he bought Klenberry Shoes, a quoted company in Ireland, as a vehicle for expansion.

A series of acquisitions has created a leisure group with 28 night clubs, 14 "themed" pubs, and several restaurants.

For Mr Stringfellow, the Hippodrome sale represents a substantial personal coup. He restored the Hippodrome name to the Talk of the Town night club which he bought six years ago for less than £1m.

Mr Stringfellow, who last month opened a £4m Stringfellows night club in Miami, plans to invest the money from the sale of the Hippodrome in two new night clubs in Paris and Chicago.

PARLIAMENTARY DIARY

Commons: Opposition debates on community care and the coal industry. Road Traffic (Driver Licensing and Information Systems) Bill, remaining stages.

Lords: Electricity Bill, committee. Schizophrenia After Care Bill. Third Reading. Motions on Restrictive Trade Practices Orders. Motion on Design Right (Semi-Conductor Topographies) Regulations, motion for approval. Motions on Northern Ireland Orders.

Select committees: Defence: Subject, Brigade of Gurkhas; Witness, Rt Hon George Younger, Secretary of State for Defence (Room 16, 11.10a.m.)

Public accounts: Subject, Sale of Royal Ordnance; witness, Sir Michael Quinlan, MoD (Room 16, 4.30p.m.)

Environment: Contaminated Land; witnesses, Bie Treatment Ltd; Dr Tom Stephenson, North East Biotechnological Centre, Teesside Polytechnic (Room 21, 5.15p.m.)

Tomorrow

Commons: Football Spectators' Bill, Second reading. Debate on Parliamentary Pensions.

Lords: Water Bill, Third Reading. Control of Smoke Pollution Bill, Third reading. Pesticides (Fees and Enforcement) Bill, Second Reading.

Select Committees: Home Affairs: Subject, Police Complaints Authority Report. Witnesses: Home Office Officials and Sir Cecil Clothier, chairman, Police Complaints Authority (Room 15, 4.0p.m.)

Education, Science and Arts: Subject, Charging Policy in Museums and Galleries; Witnesses, Victoria & Albert Museum, and Science Museum (Room 21, 4.15p.m.)

Committees on Private Bills: King's Cross Railway (Grand Committee Room, Westminster Hall, 11.0a.m.); City of London (Various powers) (Room 6, 10.30a.m.)

Wednesday

Commons: Until 7p.m. Scottish National Party motion on "Scotland in Europe". Motion on the Army, Air Force and Naval Discipline Acts (Continuation) Order. Opposed private business.

Lords: Dock Work Bill, report. Control of Pollution (Amendment) Bill, report. Fair Employment (Northern Ireland) Bill, Second reading.

Select committees: Defence: Subject, Procurement of EH101 helicopters and the light attack helicopter. Witnesses: MoD officials. (Room 16, 10.45a.m.)

Energy: Subject, Energy Policy implications of the Greenhouse effect. Witness: Rt Hon Cecil Parkinson, Energy Secretary (Room 8, 11.0a.m.)

Treasury and Civil Service: Subject, Developments in the "Next Steps" programme; witnesses, Social Security Department Officials and Rt Hon Richard Luce, Minister for the Civil Service, and officials. (Room 15, 4.30p.m.)

Employment: Subject, Part-time employment; witness, Dr Elizabeth Garnsey (Room 20, 4.15p.m.)

Public Accounts: Subject, Central Funds, exchange equalisation account; witnesses, Sir Peter Middleton and Mr Nigel Wicks, HM Treasury (Room 16, 4.15p.m.)

Social Services: Subject, Social Security Spending; witness, Rt Hon John Moore, Social Security Secretary, (Room 21, 4.15p.m.)

Treasury and Civil Service: Subject, International Monetary Arrangements: International Debt Strategy; witnesses, Treasury officials. (Room 15, 4.30p.m.)

Procedure: Subject, Scrutiny of European Legislation. Witness: Christopher Prout, MEP (Room 6, 5.0p.m.)

Home Affairs: Subject, Drug trafficking and related crime. Witness: Executive Co-Ordinator, Regional Crime Squads. (Room 15, 5.15p.m.)

Committees on Private Bills: Wentworth Estate (Room 5, 11.00a.m.); King's Cross Railways (Grand Committee Room, Westminster Hall, 10.30a.m.)

Thursday

Commons: Representation of the People Bill, Second reading. Opposed private business.

Lords: Social Security Bill, Committee. Hearing Aid Council (Amendment) Bill, Third reading.

Committee on Private Bills: King's Cross Railways (Grand Committee Room, Westminster Hall, 10.30a.m.)

Friday

Commons: Debate on Policing in London.

Business and management conferences

June 26-27 Financial Times Conferences: World Gold Conference (01-925 2323) **Lugano**

June 26 ICC: Europe 1992 – The property investment market (01-222 7000) **Cavendish Conference Centre, London**

June 26-27 Financial Times Conferences: The publishing industry in the 90's (01-925 2323) **Hotel Inter-Continental, London**

June 27 CBI/Devlin & Partners: Total quality: Fact of fiction? (01-379 7400) **Centre Point, London**

June 27 Oracle Business Information: The practical implications of running PEPS (01-727 3503) **Portman Hotel, London**

June 28 Tolley Conferences: Tax planning for marriage and marriage breakdown (01-680 5682) **London Press Centre**

June 29 Confederation of British Industry annual conference (01-379 7400) **Centre Point, London**

July 3-4 Financial Times Conferences: The outlook for European petrochemicals (01-925 2323) **Hotel Inter-Continental, London**

July 10-11 Financial Times Conferences: Telecommunications and the European business market (01-925 2323) **Hotel Inter-Continental, London**

July 11 Hawksmere: Insolvency and the courts – insolvency inspired litigation (01-824 8257) **Cavendish Conference Centre, London**

July 11 Fibax: Doing business in France - a comprehensive guide to corporate strategy (01-637 1133) **Le Meridien Hotel, London**

July 11-12 Spectra: Developments in streamlining the merchandise flow (0734 320177) **Regent Crest Hotel, London**

Trade Fairs and Exhibitions: UK

June 30-July 2 Select Investment Show (06333 76626) **Southampton**

July 3-6 Royal Show (0203 696969) **Kenilworth**

July 4-6 Fluid Power and Transmission Exhibition – FLUIDTRANS (0923 226210) **Olympia**

July 11-13 International Advanced Material & Process Engineering Exhibition and Conference (04868 21231) **NEC, Birmingham**

July 16-20 Gift Fair (0282 867153) **Harrogate**

July 17-19 Mobile Satellite Communications Exhibition (01-868 4466) **Queen Elizabeth II Conference Centre, London**

July 20-23 Antiques and Fine Arts Fair (061-832 6779) **G-Mex Centre, Manchester**

July 25-30 British Music Fair (01-730 7852) **Olympia**

Overseas Exhibitions

Current International Fancy Food and Confection Show (01-940 3777) (until June 28) **Atlanta**

Current Computer Assisted Radiology International Symposium and Specialist Exhibition (01-920 7251) (until June 28) **Berlin**

June 27-29 International Express & Courier Services Exhibition and Conference (0420 87303) **Brussels**

July 6-8 International Professional Broadcasting Recording Public Address Exhibition – PRO AUDIOASIA (0494 729406) **Hong Kong**

July 18-19 Cologne Fashion Fairs - International Trend Show (01-930 7251) **Cologne**

July 27-30 International Furniture Fair & Woodworking Machinery & Furniture Supplies Exhibition (0494 729406) **Bangkok**

APPOINTMENTS

Joining Shell board

■ Dr Chris Fay has been appointed to the board of SHELL U.K. as a managing director, and as managing director of Shell U.K. Exploration and Production from July 1. He succeeds Mr Peter Everett who is to retire. Dr Fay, who joined Shell in 1970, has held senior posts in Holland, Nigeria, Malaysia, Denmark, and Norway. Prior to his new post, he was general manager and chief executive of the Shell companies in Turkey, with overall responsibility for their integrated oil, coal and chemical activities.

■ Mr Norman Dunlop has been appointed chairman of FOSTER WHEELER AUTOMATED WELDING (FWAW). He is a director of Foster Wheeler Energy, and managing director of Foster Wheeler (London). Mr Geoff Warriner, divisional director, financial division, Foster Wheeler Energy, becomes financial director of FWAW.

■ Mr Bill McLean has been appointed chairman and managing director of the Hopkinsons valvemaking plant at Hoddersfield, following its purchase by the WEIR GROUP. He is a director of Weir Pumps, and of Devonport Management, and chairman of two group subsidiaries.

■ APPLE COMPUTER UK has promoted Mr Adrian Weekes, finance manager, to director of finance, replacing Mr Harold Beirne who is now director of sales.

■ Mr Ranier D. Brousse, formerly a director of Stewart Wrightson (Overseas) Holdings has joined the STURGE GROUP as director for European development, with emphasis on non-marine business.

■ Sir Greville Spratt has been appointed a director of NATIONAL WESTMINSTER BANK's City and West End advisory board. He is a director of the Williams Lea Group.

■ Sir Peter Graham has been appointed chairman of EQUATORIAL BANK from July 1, following the retirement of Mr R.C. Shah who remains on the board. Sir Peter is chairman of Crown Agents, and was chairman of Standard Chartered Bank. Mr M.G. Krishnan (chief executive), and Mr N.B. Desai have been appointed managing directors.

■ Mr Ken Hanna, group finance director, has been appointed to the board of AVIS EUROPE.

■ Mr Roger Lavelle will sncceed Mr Richard Ross as a vice presideot of the EUROPEAN INVESTMENT BANK when Mr Ross retires on July 31. He was head of the European secretariat, Cabinet Office.

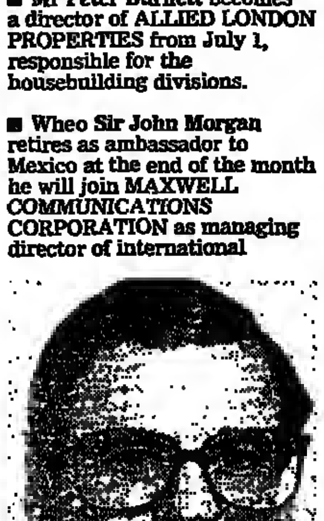
■ Mr Martin Sorrell, WPP Group chief executive, has been appointed a non-executive director of the SCANDINAVIAN BANK GROUP.

■ WHYTE & MACKAY DISTILLERS has appointed as divisional directors from July 1: Mr Allen Lowndes, UK national offtrade accounts; Mr Brian Megson, operational planning; Mr Vic Skelton, marketing services; and Mr Alastair McIntosh, managing director of William Muir (Bond 9).

■ Mr Mike Metcalf, deputy finance director of Thorn EMI, has been appointed a non-executive director of THAMES TELEVISION. He replaces Mr Peter Hayman who has retired.

■ Mr Peter Burnett becomes a director of ALLIED LONDON PROPERTIES from July 1, responsible for the housebuilding divisions.

■ Wheo Sir John Morgan retires as ambassador to Mexico at the end of the month he will join MAXWELL COMMUNICATIONS CORPORATION as managing director of international



Mr Paul Vogt *(above)*, of Vogt & Maguire, has succeeded Mr David Frame, of Usborne Grain, as chairman of THE BALTIC EXCHANGE for the next two years.

Mr Simon Duffy *(above)* has been appointed operations director of UNITED DISTILLERS, spirits company of Guinness. He is director of group strategy and financing for Guinness, and succeeds Mr Phil Rhodes who is leaving the whisky industry. Mr Ronnie Martin is to become chairman of Scotch whisky prodnction from January next year and will be succeeded as prodnciton director by Dr Alan Rutherford. Mr John Genties has been appointed director packaging operations.

relations. He was formerly ambassador to the Repoblic of Korea and to Poland. He will be responsible for the group's relations and business with the governments and appropriate agencies of the USSR, Eastern and Central Europe (including Scandinavia and Austria), China and Mongolia.

■ Mr Derek Maule has been appointed managing director of BERRY MAGICOAL, part of Hanson. He has been managing director of subsidiaries of Bray Technologies, and Muirhead.

MANAGEMENT

Corporate parenting

A struggle against creeping formality

Tensions are emerging within Electrolux as some head office staff press for more central authority over powerful divisional directors. **Christopher Lorenz** examines the reasons for this trend and suggests a possible outcome

Sven Stork certainly speaks his mind. "Electrolux has two options," he says. "Either it places trust in its product line managers, or it introduces a corporate control system like ITT's under Harold Geneen, with 1,000 staff. That would be poison for this company - it wouldn't work, and so we'd have to sell two-thirds of our product lines."

Stork is one of several powerful Electrolux "product line managers" (division heads) who have been fiercely resisting attempts by the group's corporate staff to develop more anthority over them. He is speaking shortly after a major two-day meeting of the group's top 18 managers at which this vexed qoestion has been given a heated airing. Such is the sensitivity of the issue that some people's nerves have become sufficiently frayed in this normally cerebral and collegial company for one manager, in a different product line, to describe the central staff as "pygmies."

At stake in this tug-of-war is something mnch more significant than personal power-play. At one level, it reveals the usual growth pains of a company which only divisionalised itself fully six years ago, and the product line managers of which are naturally determined to protect their independence in the multi-dimensional structure which has been developed over the last few years. Lennart Ribohn, Electrolux's deputy managing director and chief financial officer, calls this "co-ordinated decentralisation."

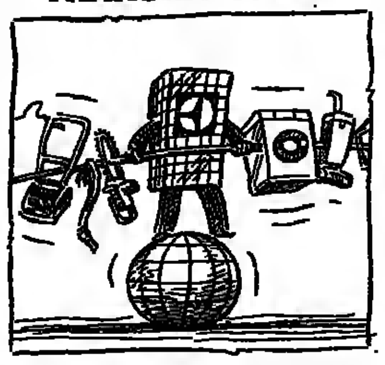
At another level, the debate reflects resistance to the increase in formality which is inevitable within a company where threefold growth since 1981 has made it impossible for its managing director, Anders Scharp, to rely as completely as he did in the past on informal personal contact with the divisional managers and those below them. All the same, Scharp is doing his utmost to preserve this fundamental characteristic of Electrolux's culture, which has made it unusually fast on its feet over the past 20 years.

At a deeper level still, the issue gets to the heart of Electrolux'e future ability to prosper in its present diverse form. For the resistance against greater staff "mnscle" reflects a widespread view among product line managers that Electrolux's corporate staff are not only tending to develop too much formal procedure, but also that some of them are failing to distinguish sufficiently between the different characteristics and needs of the group's very varied product lines. These range from refrigerators to aluminium smelting, and car seat belts to cleaning services.

This spectrum may become even broader by the mid-1990s, according to Anders Scharp.

Scharp's undisputed personal ability to play different roles towards these contrasting businesses – giving some a freer hand than others, and focusing on different sorts of issues in his dealings with them – prompts him to rebut criticism that Electrolux's portfolio is too diverse, and its "parenting" requirements too varied, for its corporate centre to be able to add maximum value to all the businesses.

THE BIRTH OF A 'TRANSNATIONAL'



Striving for balance

In the new jargon of "corporate parenting" theory (see the introduction to this series), Scharp himself acts as a hands-on strategic "orchestrator" towards some businesses (especially white goods, by far the largest prodnct line), as a looser "coach" towards others (chain saws, and garden products, for instance), and as a hands-off "controller" towards a few peripheral businesses (such as farm machinery).

But Electrolux's corporate centre consists of more than just Scharp himself, and not all his staff are as flexible. Sven Stork, who heads two product lines – materials handling equipment and refrigerators for caravans and hotel rooms – says "the newer members of staff are not differentiating sufficiently between the various parts of the group."

To some extent, such tensions between line managers and corporate staff are endemic in any large organisation. Bnt they are made especially acute within Electrolux by its long history of having operated with the minimum of formal procedures, other than a very precise financial reporting system.

"Most operating managers don't have much respect for staff," says Roger Baxter, managing director of Electrolux UK. "There's a tendency for staff involvement to become increasingly data-orientated, to the extent that there's a danger of it becoming a brake on the business. That would be the kiss of death."

In the system which Electrolux has operated for most of the past 25 years, "there just isn't a flow of management memoranda," says a top executive who previonsly worked nnder a very different regime at Ericsson, the Swedish telecommunications group. Electrolux's executive management committee does not even hold formal meetings – it gets together as part of other occasions.

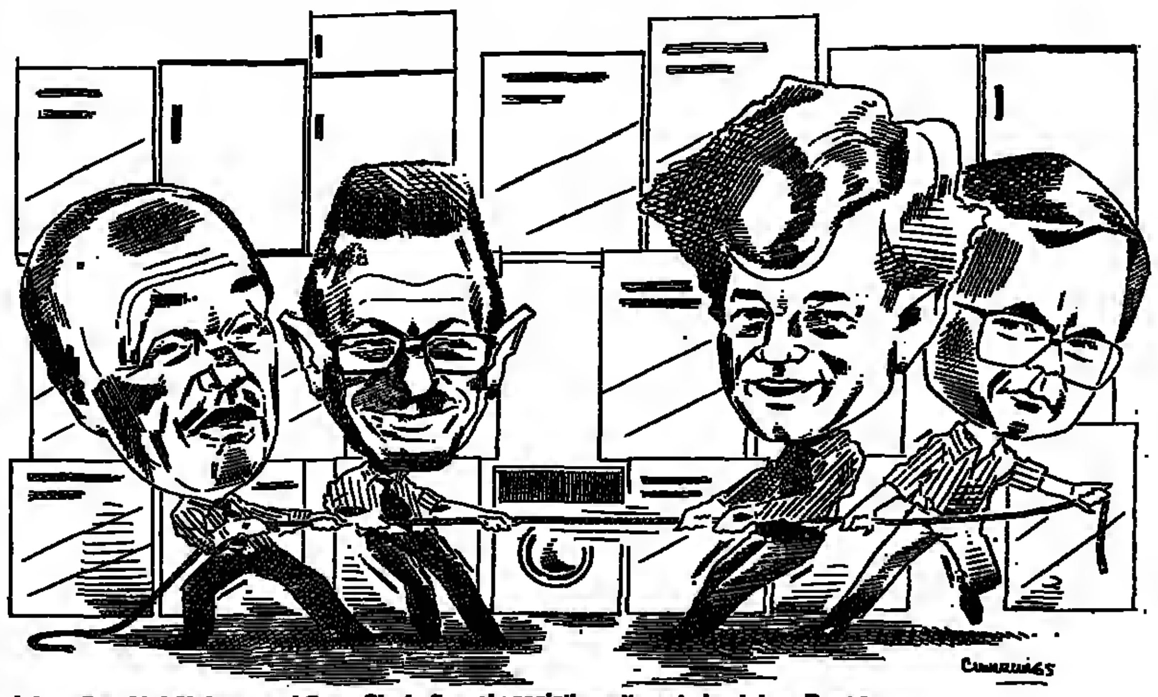
Financial reporting aside, "everything is done by constant personal contact, either face-to-face or on the telephone," says the top executive. Anders Scharp often has phone conversations with his top managers around the world several times a week, sometimes daily. He also travels extremely frequently, usnally in the company of Lennart Ribohn and several prodnct line managers, to a hectic round of operational reviews with most of his 500 operating units.

In addition to the many strategic moves which are settled in these meetings, which are held in two-day batches of 20 or more in each country, important decisions are often made on the run, in office canteens, hotel rooms, airport lounges or on the factory floor – every national batch of meetings is accompanied by at least ooe plant visit.

Jim Ringler, country manager for Electrolux's white goods interests in the United States, speaks for all the group's senior managers out in the field when he stresses the value of these face-to-face meetings. "Anders has a way of getting three times as much out of a meeting as a normal person would," he says. "You feel almost winded when you've finished a presentation - he's so damned aggressive!"

All the same, Scharp now runs the risk of being stretched too thin. As Sven Stork says, "the more product lines there are, the less time Anders has for each." That's why he's been building up the staff fnnctions: to track what he and his colleagues are doing – to document their decisions." In a neat phrase which encapsulates the widespread, though not universal, view of Electrolux's product line managers – Stork says that the staff are there to "write history," not to make it.

Stork's criticism, and that of other product line heads, is directed mainly at the ambitions of some of the newer arrivals, but also at Lennart Ribohn's wish to strengthen central control over many prodnct line activities. Ribohn emphasises constantly the difficulty of recruiting and motivating bright new staff if they have no authority over budgets, investments and so forth.



L to r: Per Olof Sjoberg and Sven Stork, fiercely resisting attempts by Johan Bygge and Mats Aguren and other young "staffers" to formalise procedures

Some of the product line managers' fire is directed at a few specific individuals. One of them, inevitably in view of the centrality of his function, is Johan Bygge, the 33-year-old corporate controller, who has helped launch several new planning and budgeting procedures since he arrived just over two years ago.

One of the main changes has been the introduction into each company's monthly reporting of mnch fuller data on accounts receivable. Another has been the launch, as part of the annual budgeting cycle, of the closest Electrolux has ever come to formal strategic plans: what it calls "profiles" for each product line.

Bygge describes these as "three-year scenarios", and says they are intended to help product line managers "occupy themselves a bit more with the longer term" – something which is doubly necessary now that the growth emphasis of several major product lines is being shifted away from acquisitions to internally-generated growth. Bygge feels the system is already having an effect. "There's definitely a longer-term perspective trickling in," he says.

As Bygge says, "there was a lot of debate with the product line managers about this." He recalls one of them, Per-Olof Sjoeberg, saying: "We don't do that sort of thing in this company." Sjoeberg now says that his resistance was directed more against the extent of financial projections which Bygge was demanding than at the need for a strategic vision of the future – something he very much supports.

Sven Stork is less diplomatic. "It's fine to give the central staff more information about what's going on, and planned," he says. "But if they intend to use it as a means of controlling the product lines, they'll be biting on granite."

Those on both sides who hoped the issue would be clarified once and for all at the top management meeting, which was held in late January, were disappointed. On the one hand Scharp said that he wanted staff activities "to command greater respect." He explains that "I have to be very careful now not to take decisions without the staff being informed, and allowed to give their viewpoint. To be able to take decisions you need to have other views presented to you than just those of the product line manager."

On the other hand Scharp made it quite clear that "I don't want anyone coming between myself and my prodnct line managers." He vetoed a proposal that, when units failed to follow certain guidelines – on investment, pricing, purchasing and so on – central staff should have the right to order them to do so.

Scharp admits that his and Lennart Ribohn's views differ somewhat. "He would like to run things more toughly from the corporate point of view. But there's nothing wrong with that – it's good to have different points of view."

This whole debate involves not only the staff based in Stockholm, but functions which are being created in various major countries around the world, especially the US and Italy, as staff who used to be part of the acquired companies are converted to become extended arms of Stockholm.

Sven Stork, for one, has experienced the impact of the new US staff unit since its creation late last year. When Anders Scharp showed great concern at high inventory levels in several countries, the US staff reacted by putting direct pressure on executives beneath Stork and other product line managers. Stork was not amused.

Given that some increase in staff influence is probably necessary because of the group's recent rapid growth in size and complexity, one possible solution which has been discussed is for more staff functions to be dispersed throughoot the group, to what might he called "multiple corporate centres" (some companies dub them "sectors").

Several of these already exist in Electrolux, in the form of "business areas" which group pairs of product lines. But any real transfer to them of part of the centre's financial control burden would have to involve some aggregation for Stockholm "corporate" of toe very detailed data currently submitted by Electrolux's 500 constituent companies. This would infringe the groop's transparency to the chief executive and his staff – one of the key principles of the Electrolux etyle of "corporate parenting."

As head of the financial staffs, Lennart Ribohn makes it clear that, though he is prepared, on certain issues, to accept less direct communication with the constituent companies in future. "I would still like to have direct contact with them."

So long as the 55-year-old Anders Scharp remains chief executive – even if, as may happen next year, he also assumes the role of chairman – he will want to preserve the traditional Electrolux principle of "centralised strategy/decentralised operations," with strategic supervision in his own hands and financial control in Lennart Ribohn's.

The alternative, as Ribohn himself says, would be to move to more of a holding company structure. But this would risk destroying the glue which holds Electrolux together. Without an individual of Scharp's mould at the helm, operating with his mixture of styles, it would also become harder for Electrolux to justify continuing to own such a diverse range of businesses.

In the meantime managers throughout the group may have to learn to live with even more ambiguity in their organisational relationships than they are used to. This goes as mnch for staff as for line executives. Mats Aguren, a 33 year-old former management consultant who in February took over as group administration director, says "Electrolux's top managers have an ability to absorb uncertainty to an extent that I've never seen in another company. We need this, especially in staff positions."

Previous articles in this series appeared on Monday, Wednesday and Friday last week. The next will be published on Wednesday.

ARTS

ARCHITECTURE

The careful patron of Butler's Wharf

Colin Amery visits the Conran Foundation's new Design Museum in Docklands

The key to good planning and architecture is, more often than not, ownership. Good patrons are *half* the battle; and the best patrons are not the institutional investors or the committees of pension funds, but the active owners of sites and buildings.

There is a project underway in London's Docklands that bears all the hallmarks of a shrewd and careful patron: Butlers Wharf, just to the east of the Tower of London on the south bank of the Thames. The site covers some twelve acres and incorporates one of the most historic streets in Docklands – Shad Thames.

This street, just to the north of Tooley Street, was, to anyone who remembers this area before it became the Docklands of the estate agents, one of the most dramatic, industrial streets surviving in London. It was like a great, dark brick canyon, Dickensian in its gloom and criss-crossed by high level lattice iron bridges. Dore engraved views of this sort of Piranesian 19th-century London, capturing the sense of awful grimness that was so powerful and evocative. Shad Thames runs behind the old Courage brewery and down to St. Saviour's Dock and is now the spine of the new Butlers Wharf development.

Sir Terence Conran is the driving force behind this and his architectural practice, Conran Roche, are the main designers. At the heart of the development, and one of the first buildings to be completed, is Sir Terence's particular baby, the new Design Museum. This will open to the public on July 6 with a major exhibition entitled *Commerce and Culture.*

The Butler's Wharf development has one great advantage: the most spectacular views of Tower Bridge and the towers of the City. In the process of the gradual renaissance of the South Bank of the Thames, Butler's Wharf occupies a key position. The opening of the Design Museum anticipates the completion of the whole scheme but also gives an indication of the commitment to quality.

The whole river front of the development consists of the main Butler's Wharf Building, which was a late 19th-century warehouse. This has been "preserved," but in fact only its facades have been retained. This approach raises all sorts of questions, but there is no doubt that the long old brick facade looks well from the river.

The site next door has been cleared and will be occupied by Spice Quay, a large riverside office development. This has been designed by Stuart Mosscrop of Conran Roche and is a large mainly glazed seven storey building. I like the clarity of the design of this new block, which has been scaled to fit carefully into the conservation area.

There has, however, been a price to pay; a listed warehouse with an interesting timber interior is to be moved from the site and rebuilt nearby. Shad Thames runs through the building longitudinally under a glazed roof. The tradition of high level linking bridges is continued inside this modern version of the old street.

The entrance to the Design Museum faces directly into this new pedestrian street, so that most visitors will have a covered and sheltered walk to the museum – incidentally passing a great many shops and restaurants en route. Alongside all this large scale commercial development the Design Museum looks very modest indeed. It is again designed by Stuart Mosscrop of Conran Roche, and he has utilised the steel frame of an older building. From the river you see three stepped terraces lined with ships railings; a modest tower; and the long deep warehouse-type building bridging the road and extending back into the development.

Everything about the new museum is white. You could easily be forgiven for thinking that this was an old building of the 1930's with its whiteness, flat roof, narrow bands of windows and glass brick walls. The reticence of the building is not in question – it is an unexceptional and suitably neutral background to the exhibits.

Inside, it is really a machine in which to look at objects. The exhibition spaces have been designed by Stanton and Williams and are intelligent, well serviced, totally flexible for changing exhibitions, and agreeable to be in.

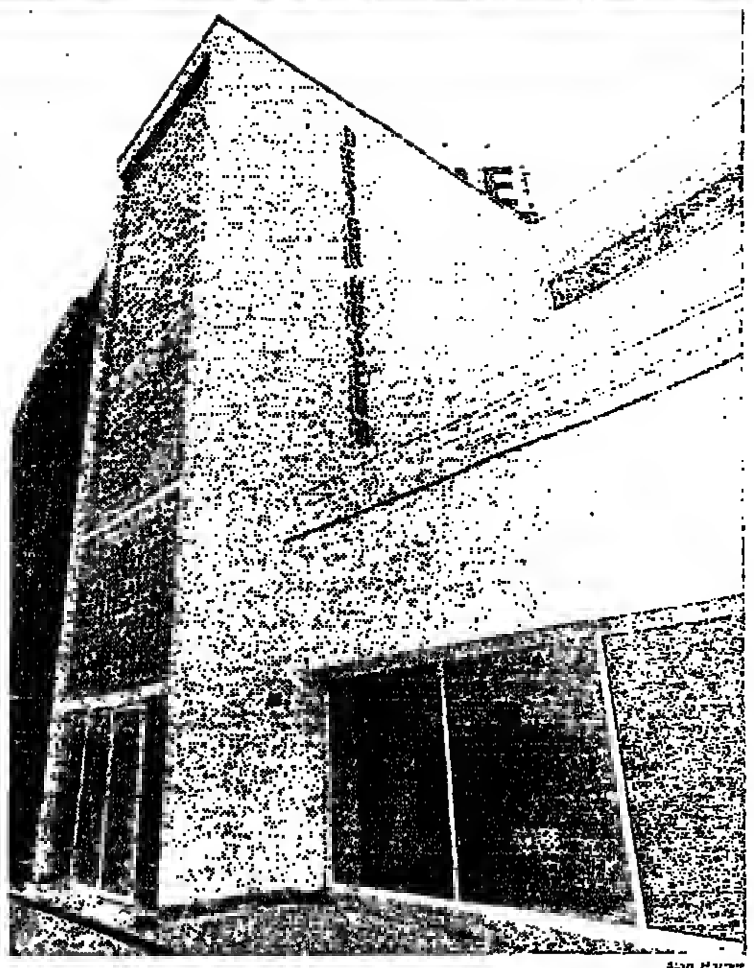
The public arrive at ground floor level where the white marble floor and elegant stair lead them up to the restaurant, new "Boilerhouse" (named after the space in the V&A where the venture began), and an area for changing exhibitions of new products to be called Design Review. Above this is the permanent study collection of objects – the space is large enough to house cars as well as kettles. There is a small library and a lecture theatre.

The elegant neutrality of it all does rather remind the visitor of a shop window waiting for the new goods to arrive. When they do, they will be perfectly shown and lit and – and I am sure this was the intention – will be more memorable than the building. The light in the building and the river views have been well managed and the architect has avoided all bravura statements.

Inevitably, comparisons will be made with the work of Richard Meier, the American architect of the great white museums: he has had more spatial adventures in the High Museum at Atlanta, and in the Decorative Arts Museum at Frankfurt, but he had more money and less confined sites.

What is important to realise – and to applaud – is the fact that this is a privately funded venture by the Conran Foundation. It will be supported by the surrounding development, but nevertheless, it is a generous and public spirited gift. It seems a shame that it is called a museum, because it is really a resource centre for both the past and future of industrial design: it should operate like a think tank to help design to aid business. It has, of course, a public role to enhance visual education, and to that end the architects have given the museum staff a blank sheet to fill.

Colin Amery



Alan Harper

The entrance of the Design Museum

The Grapes of Wrath

LYTTELTON

Second of four in the National Theatre's invaluable international series comes Chicago's Steppenwolf Theatre Company which miraculously makes of the unexpansive *Lyttelton* stage an all-American wilderness stretching from Oklahoma to California through the dust tracks and settlement camps of John Steinbeck's epic novel.

Although it was memorably filmed as far back as 1940, a bare year after publication, this is the first time the Steinbeck estate have agreed to a stage adaptation, and one can understand their reluctance. The rich variety of Steinbeck's writing and his structuring of the novel into alternate chapters of description and narrative, are more obviously filmic than theatrical.

Purists may claim that what one is seeing in this magnificent ensemble piece is every other chapter: that the demands of dramatising the dust-to-dust migration of the Joad family crucially alter the political perspective created by Steinbeck's quasi-biblical evocations of a barren landscape and a dispossessed people, the generalities of which the Joads are merely a typical example.

Yet the strength of Frank Galati's production is its stunning substitution of theatrical for novelistic techniques, rooting the the narrative among listless, starving and occasionally crazed, masses. The starting point of this process is Kevin Rigdon's design – a son et lumiere landscape which veers effortless between the poetically general and the *painstakingly specific.*

The huge emptiness that greets the newly-parolled Tom and the lapsed priest Casy, on their arrival at the deserted Joad homestead is suggested by nothing more elaborate than an upturned chair, an abandoned boot and the eery wail of an old man bowing a saw.

In contrast the stream the weary travellers find en route is filled with water, real and splashy enough when filled with cavorting bodies to ensure those in the front row at least a literal share in their pleasure.

Dominating the early scenes is the Joads' huge jalopy which glides across the stage, allowing the evocation of a community in transit to yield intimate tableaux – Pa squint-eyed at the wheel while Ma nurses a dying Granma, or the increasingly pregnant Rose of Sharon necking with her husband on the roof in a stolen moment of privacy.

The Joads themselves are played at the start with the rough physicality of hillbillies, interludes of absurdly perky country music creating a surface jollity that does not for a moment obscure the undercurrents of despair.

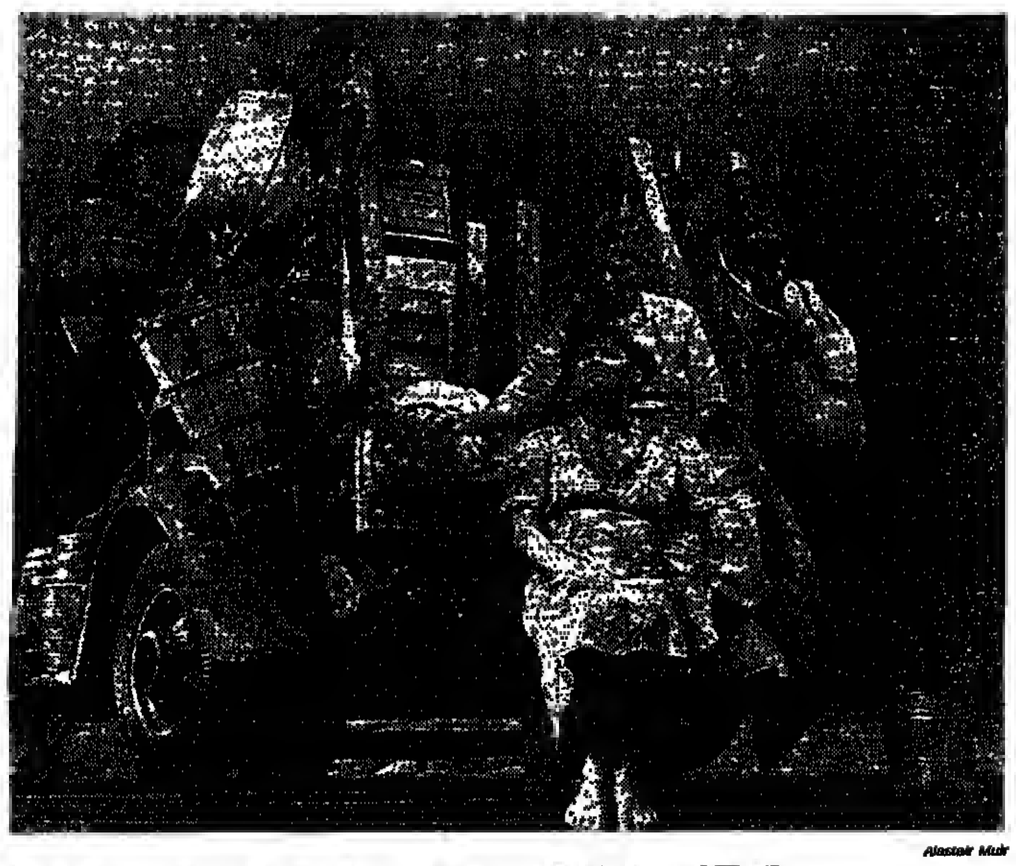
Robert Breuler's Pa, bull-chested in his tattered dungarees, is everyone's image of the middle-American man of the land. He shares with Lois Smith's wonderfully understated Ma a quiet heroism that arises from nothing more noble than the urge to keep the family alive and moving.

Sally Murphy's Rose seems impossibly, cruelly young for motherhood. Her suckling of the starving man, the image chosen to close the show, is one of exhausted innocence and madonna-like resignation. By allowing a grown man to suck where her stillborn baby couldn't she has embraced her fate in a pitifully distorted echo of the earlier self-sacrifice, when Terry Kinney's matter-of-fact Casy slouches off to jail in Tom's place.

The only disappointment in the casting is Gary Sinise's Tom, a slight, boyish presence who would appear to have been chosen for the part of the paroled hot-head precisely for his anti-heroic qualities. It is hard to see in him the propensity for violence which causes him to risk his own and his family's safety in bursts of futile anger.

However, this is a quibble in an adaptation scripted and directed by Galati with an immense and moving integrity, seizing humour where it falls without losing the sickening momentum of hopelessness, and drawing supporting performance that are as memorable as any I've seen.

Claire Armitstead



Alastair Muir

Sally Murphy and (behind her) Lois Smith in The Grapes of Wrath

Orfeo ed Euridice

GLYNDEBOURNE FESTIVAL

Last month Michael McCaffery's production of Gluck's opera got no glad welcome from Max Loppert on this page. This past Saturday it still made a tame evening, but with the difference that where the conductor Hermann Michael is said to have favoured languid tempi for most of it, his successor Ivor Bolton fairly hustled it along. And, it is also said, after next to no rehearsal: in Euridice's "Questo asilo di placide calme", certainly, Cynthia Hamon sounded like someone whose accustomed placid support had been yanked away without warning. She and Bolton must have had a chat during the dinner interval, for they co-operated smoothly in the final act.

In the circumstances I should rather have heard Bolton's remaining performance (this Thursday), when the shock of the new ought to have settled. Those brisk tempi are undoubtedly right in spirit, but in the earlier acts they reduced even such dramatic contrasts as McCaffery's production permits; the music seemed to canter brightly through one event after another. Preserving a strong dramatic silhouette with radically adjusted tempi is something that needs playing-in. On the plus side were Bolton's rhythmic energy, his pretty highlighting of secondary instrumental voices and most of all his skilful welding of Gluck's sectional sequences.

Diana Montague's principal-boy dignity as Orfeo survived very well, and during the flight from Hades she and Miss Hamon blossomed movingly. In its decorous way the final celebration served well enough, and we departed with some sense what the opera is *for.*

The great aim of Gluck and his librettist Calzabigi was to secure natural expression and directness, without elaborate formalities or courtly airs. Dressing a modern chorus in sedulous period costume and instructing it in unambitious period dances achieves no such thing; rather the reverse, a practised, self-conscious pageant which *mutatis mutandis* exemplifies the very mould that Gluck wanted to break. The still-formal contours of Gluck's lovely score forbid gutsy treatment such as David Freeman gave Monteverdi's *Orfeo* at the ENO, but there must be better ways of realising Gluck's humane vision than this twee mock-simplicity.

David Murray

Auras

BIRMINGHAM HIPPODROME

Ever mindful of its traditions as a cradle of talent, Sadler's Wells Royal Ballet has just launched two more apprentice choreographers from its ranks on to the treacherous seas of creativity. Vincent Redmon and William Tuckett made their first professional works as part of a programme that was seen at the end of last week. The works were very youthful, one – Tuckett's *Those Unheard* – trying to run before it could walk; the other – Redmon'a *Auras* – seeming almost too cautious. But both argued talent; both were welcome, and both benefited from imaginative design.

Auras is set to the Poulenc Sextet, music ideal for a young choreographer to try out his paces. Poulenc's vivacities become the basis for quick and decently academic enchainements for three couples, while Clare French – dancing with a lovely ease – leads a quartet to whom falls the main burden of the action, which is plotless and barely hints at some thematic undercurrent. The real merit of Redmon's work is good craftsmanship. He knows bow to put steps together, never abuses his score with wilful tricks, makes his dancers look attractive, and never overburdens the music. Having, as it were, now proved his right to make ballets, I hope that for his next piece he will assert his own individuality even more; but let him never be afraid of making choreography as well-mannered and as deftly conceived as *Auras.*

William Tuckett's *Those Unheard* comes with a lengthy explanatory note and a quotation from Sylvia Plath. I am inclined to the belief that a choreographer's more cosmic thoughts should be in the unspoken language of dance. What we watch, as Britten's sea interludes from *Peter Grimes* are played, is almost a series of tableaux vivants as Annette Pain hears the call of the sea and yields to it. Meaningful pauses and poses – more meaningful for the cast than the audience, I suspect – do not translate into consistent dynamic life. But there are sudden moments of poetic clarity as the dancers react to the sea which suggest that William Tuckett has brought off something unexpected and innocently touching with allusive economy. He has attempted something too difficult for his present skills, but the attempt was worthwhile. And his skill will increase.

Clement Crisp

Casken and Harvey

ALMEIDA FESTIVAL

As a prelude to this week's world premiere of John Casken'a opera *Golem* the Almeida Festival offered Saturday'a mainly-Casken programme at the Union Chapel. Casken, one of the most attractively individual and unclasaifiable voices in British contemporary music, is 40 next month; it is to be expected that the opera will bring together the strands of personality – a "Northern" sense of colour, a natural feeling for distinctive dramatic gesture, a command of musical momentum – diversely exhibited on this occasion.

The large-scale unaccompanied choral work *To fields we do not know* a "Northumbrian elegy" (1984), and the two-piano *Salamandra* (1986), share a rigour of thought and a steadily mounting intensity of feeling that snare the listener whole. *Salamandra*, a further exploration of the imagery of fire that has preoccupied Casken in earlier song cycles, elaborates a rich tracery of exotic figuration, glinting with post-Debussyan tints and Roussel-like harmonic astringency, in a move towards central stasis and then final whirling brilliance. There is a sweep of pianistic mastery in the writing; the performance, by Andrew Ball and Julian Jacobson, showed it off to admiration.

The choral piece (given a reading of marvellous authority by the BBC Singers under Simon Joly) sets texts by Basil Bunting framing others by Bede and Anon. The structure, a linked set of meditations on human mortality, also permits a vein of graphically picturesque nature-images; and Casken, dividing his choral forces into many subsidiary groups, pours out a stream of captivatingly picturesque sounds. Also in the programme was Piper's *Linn (1984)*, an *instrument*-and-tape tapestry for the Northumbrian piper Richard Butler, which creates a landscape of sound for the piper – a marriage of simplicity and sophistication expertly judged.

Another Almeida "theme" has been the music of Jonathan Harvey, 50 this year. In the opening weekend Music Projects/London gave the British premiere of his *Valley of Aosta* (1989), a sustained burst of post-Impressionistic colour-sprays, rapid in movement and brilliant in impact; on Saturday the BBC Singers gave us his *Forms of Emptiness* (1986), which confronts Sanskrit and e.e.cummings. Three choirs are cast into beautifully judged spatial relationships; the whole work vibrates with Harvey's special brand of spiritual energy.

Max Loppert

ARTS GUIDE

June 23-29

MUSIC

London

English Baroque Choir, conducted by Leon Lovett, with Lorna Anderson (soprano). Beethoven, Mozart. Barbican (Tue) (638 8891).

Royal Philharmonic Orchestra, conducted by André Previn, with Vladimir Ashkenazy (piano). Beethoven. Royal Festival Hall (928 8800) (Tue).

London Symphony Orchestra, conducted by Mstislav Rostropovich. Mussorgsky, Shostakovich. Barbican (638 8891) (Thurs).

Paris

Orchestre National de L'Ile de France conducted by Jacques Mercier. Saint-Saens. Saint-Denis Basilica (Tue) (42433097).

Orchestre de Paris conducted by Claus Peter Flor, with Michel Beroff (piano). Rossini, Strauss, Dvorak (Wed) Salle Pleyel (45630796).

Nouvel Orchestre Philharmonique conducted by Marek Janowskiwith the Radio-France Choir. Schoenberg (Wed). Théâtre des Champs Elysées (47203637).

Jose Carreras with Lorenzo Babai (piano). Tosti, Turina, Falla, Massenet. Théâtre des Champs Elysées (Thur) (47203637).

Brussels

The Brussels Festival Orchestra conducted by Robert Janssens with Paul Danblon narrator. Prokofiev, Beethoven, Cirque Royal (Sat) and Cercle Royal Gaulois (Mon).

The Monnaie Symphony Orchestra conducted by Sylvain Cambreling with Jose Van Dam (bass) Elzbieta Adam (mezzo), Cornelia Berger (contralto) and others performing Schumann's scenes from Goethe's Faust, Palais des Beaux-Arts (Thur).

Vienna

Mozart Orchester. Mozart. Konzerthaus (Wed).

Wiener Hofburg Orchester conducted by Gert Hofbauer. Miscellaneous operetta and waltzes. Musikverein (Tues).

Wiener Symphoniker conducted by George Prêtre. Mozart, Polenc, Ravel, Stravinsky. Konzerthaus (Wed, Thur).

Rome

Orchestre National de France, as part of the French Academy-Roma Europa Festival, opens with Pierre Boulex conducting. Vares, Schoenberg, Webern and Stravinsky. Villa Medici (Thur) (967611/4744776/6544601).

Florence:

Carlo Maria Giulini conducting Brahms. (Wed) Teatro Comunale (2779236).

Amsterdam

Melvyn Tan (piano). Schubert (Tue) Concertgebouw.

Radio Philharmonic with choirs and soloists conducted by Edo de Waart. Wagner's *Götterdämmerung* (Wed).

London Classical Players under Roger Norrington, with Melvyn Tan (piano). Schubert, Chopin, Mendelssohn (Thur) (718 345).

Washington

Mostly Mozart, a five-day preview gives highlights of this year's month long festival in New York, with Beethoven and Bach as well as Mozart performed by the Festival Orchestra conducted by Gerard Schwarz. Kennedy Center, Concert Hall (254 3776).

Chicago

Ravinia Festival. The summer home of the Chicago Symphony opens the season with the Arditi Quartet performing Conlon Nancarrow, Gyorgy Kurtag and Elliott Carter (Mon) followed by Bartok, Schoenberg and Berg (Tue). Pianist Ruth Laredo gives a recital of Scriabin, Rachmaninov and Prokofiev (Thur). Highland Park (728 4642).

Tokyo

Malcolm Bilson (fortepiano), Anner Bylsma (cello). Beethoven: complete works for cello and fortepiano. Tokyo Bunka Kaikan, Recital Hall (Mon, Thur) (470 2727).

Elena Obraztsova (mezzo), with the New Jspan Philharmonic Orchestra. Massenet, Saint-Saens, Glinka, Rimsky Korsakov, Tchaikovsky. Suntory Hall (Wed) (505 1010).

Schleswig Holstein Music Festival

June 25-August 20

Following previous successful festivals, initiated and directed by Justus Frantz, this summer's programme has been extended to 163 concerts in 34 different venues. Musicians will be performing in towns and villages from Flensburg in the north to Lüneburg in the south, in manor houses, barns, churches, concert halls and riding stables.

Among the orchestras appearing are the Vienna Chamber Orchestra (Entremont), Czech Philharmonic (Neumann), Philharmonia Orchestra (Sinopoli), Hallé Orchestra (Menuhin), and the Bavarian Radio Orchestra (Masur). Soloists include Natalia Gutman, Boris Pergamenschikov, Heinrich Schiff, Anne-Sophie Mutter, Claudio Arrau, Jorge Bolet, Barry Douglas, Christa Ludwig, Lucia Popp, Dietrich Fischer-Dieskau, Jean Pierre Rampal and the Tokyo String Quartet.

One of the festival's aims is to attract and support young talent and there will be classes with Boris Pergamenschikov, Karl-Heinz Kaemmerling, Tatjana Nikolajewa, Brigitte Fassbaender/Helmut Deutsch, Burkhard Glaetzner, Lev Naumov and others at the music university in Lübeck. The festival's own orchestra, with 120 members from 21 nations, will train throughout the summer with Claus Peter Flor, Valerie Gerjev from Leningrad, Christoph Eschenbach and Leonard Bernstein, while Bernstein accompanies the orchestra on a two-week concert tour through *Europe. Sponsored by Bertelsmann*, Zentis, Audi and Windsor. Details and tickets from Schleswig Holstein Festival. Postfach 3840, 2300 Kiel (0431 567080).

Bobby Brown

WEMBLEY ARENA

Bobby Brown could not quite believe it himself. "Eight nights at Wembley Arena, and this is my first time here."

Superstardom seems to have come from nowhere, but that is not quite the case. Bobby has been here before, in his previous incarnation as one of the much vaunted "Jacksons of the Eighties", New Edition. Now, after nearly a decade in showbusiness, he is having to live up to another title, the Michael Jackson of the nineties.

The Jackson comparisons, particularly over his dancing style, are wrong. Brown learnt how to move on the mean streets of Boston. He has a fluid, balletic style that harks back to Gene Kelly, and a jagged boundless energy reminiscent of the "Hardest Working Man in Showbusiness" himself: Mr James Brown.

Bobby is what Americans like to call a crossover artist. He has taken the forcefulness of rap and fused it with a funky slamming bass line and lush soul melodies. With the boundless energy of a 20-year-old, and the lasciviousness of a pole cat he darts and leaps for an hour and a half.

Though superficially there is no stylistic hybrid, just a fusion of traditions, what is new and refreshing is the Bobby Brown attitude. Don't Be Cruel probably sums it up best, the rapper's machismo is in there, but so is the vulnerability of a sensitive soul. Though full of his own ego, he clearly has heart and an awareness of the real world.

Even so, some of Brown's attitudes are suspect. He appeared on a throne wearing a bowler hat and smoking a cigar – the bossman. What humility he has retained is in danger of extinction. Throughout the show were the crude pelvic gyrations that are not so much rude as predictable and cliched. Another piece of exhibitionism was his constant desire to drop his trousers, there was a white, a blue and a red pair, all revealing his bugging biker shorts. It always got a roar from the crowd. It reminded me of an end of the pier slapstick routine.

Bobby has not quite worked out his attitude to women. He tried to explain it introducing the song Roni. A Roni is "the kind of girl who makes sure she goes out without a hair out of place. She don't wear nail polish, she don't wear lipstick." Pretty insulting and sexist, and a bit disconcerting to see those insulted by the man lapping it up.

Spencer Bright

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Struggle over competition

THE THATCHER Government must decide soon whether it wants competition in its privatised electricity industry to be effective, feeble or just plain phoney. The decisions will be shrouded from the gaze of Parliament because they arise from the contract negotiations for the supply of power from the two new generating companies to the 12 distribution utilities. Ministers have tried to treat these as private commercial transactions. But this is a polite fiction, since the Government is sole owner of the 14 embryo companies and also their vendor.

In the simplest terms, the Government is confronted with the contradiction of trying to establish a market in electrical power with bugle calls for competition, while putting only two competitors into the lists. These are National Power and PowerGen, the companies which will inherit the CEGB's power plant.

The contradiction was inherent in the Electricity Bill and its dependent regulations, which establish the 12 area boards as franchised distribution companies, but encourage competition in the supply of electricity to industrial, commercial and even retail customers.

The bill requires each distribution utility to meet all requests for electricity within its area, and therefore to sign contracts with the generators to ensure that it can meet the maximum expected power demand. However, the new rules also permit consumers to take their custom elsewhere, perhaps leaving the distributor with an obligation to pay the fixed costs of contract for power which it no longer needs.

Bearing the risk

The Government hoped that its technocrats would be able to finesse this difficulty with contractual subtleties. However, they have constantly bumped against that fundamental question in all highly capital intensive industries: who will bear the risk of building plant which may turn out to be surplus?

In the old state electricity industry, the answer was that costs were passed straight through to consumers, or sometimes diverted to taxpayers. In a fully competitive market, shareholders take the risks in proportion to expected rewards. But the privatised electricity industry will be a curious hybrid of 12 regulated monopolies issuing from a two-legged wholesale market.

Short contracts

A solution, favoured by some parts of the industry, was to truss up the two generators with detailed and fairly lengthy contracts assigning all their power stations plant by plant to the different distributors. That would limit the ability of generating companies to "poach" industrial and commercial customers at the cost of stifling the free market at least in the medium term. The Government, however, has continued to emphasise the benefits of competition under its new regime, and has rightly insisted that the initial contracts should be relatively short.

Moreover, free competition in the industrial and commercial sector could prove an embarrassment for the Government because the two very large generating companies might well exercise their market power to cream off profits and exclude new entrants. Alternatively, strong competition, combined with the present surplus of generating capacity, could drive prices down towards the variable cost of running power stations, which in most cases is just fuel costs. Industrialists might welcome that in the short term, but the prospect would severely reduce the capital value of the generating companies to prospective investors.

None of these difficulties would have been so severe if the Government had opted to break up the generating sector into four or five competing companies. In that case, something like a genuine spot market might have emerged instead of the highly complicated subcontracting clubs for generators and distributors now envisaged. As it is, some compromises must inevitably be made to limit the market power of the generators. Having started down the road towards an open system, the Government must not shirk the consequences of its own logic, even though that will require the new electricity companies to shoulder more risk than they would like.

Iran emerges from its shell

THERE WAS something almost unseemly about the haste with which Iran's parliament speaker and would-be President Ali Akbar Hashemi Rafsanjani rushed off to Moscow last week on his first foreign trip after the death of Ayatollah Khomeini. Little more than a fortnight after the late spiritual leader aimed a final curse at the "godless" Soviet Union, his likely political heir was basking in a display of warmth between the two countries not seen since Iran's Islamic revolution.

Yet the West would be wise not to conclude that, as Iran emerges from the shadow of Khomeini's isolationism, it is tilting towards the East bloc. If anything, the visit provides evidence of the confidence with which Mr Rafsanjani, even before his expected endorsement as the country's dominant political figure in an election on July 28, is steering Iran towards rapprochement with the outside world. If handled carefully by all sides, such a development could contribute to the overall stability of the Gulf region, and perhaps to a lasting settlement between Iran and Iraq.

Echo of rivalry

In Washington, the reception of so senior an Iranian representative in Moscow may stir at least an echo of old East-West rivalry. For US policy-makers, the prospect of their former ally, Iran, building a network of economic, political and even military ties with the other super power can hardly be comfortable, but it should not be a cause for alarm.

Despite its agreement to supply Iran with limited categories of weapons, the Soviet Union will not want a rapid rapprochement with Iran to prejudice their wider regional interests, including a close if not always comfortable relationship with Iraq and a desire to re-establish diplomatic ties with Saudi Arabia.

The Soviet Union has scarcely benefited from the Islamic Republic's overriding hostility to the American "Great Satan" over the last 10 years, and the relationship sealed last week is not very different from Moscow's dealings with the Shah's regime during the 1970s. Mr Gorbachev would no doubt argue that it is the absence of close commercial ties and of a degree of political co-operation between two neighbours sharing a 1,400-mile border that has been the anomaly – much as if the US and Mexico were barely on speaking terms.

History shows that such physical proximity can also constrain friendship. One cornerstone of the Islamic revolution that has survived Khomeini is Iran's wish not to be seen to belong to the "orbit" of any foreign power. Mr Gorbachev, for his part, was anxious last week to secure a reciprocal promise from Mr Rafsanjani that Iran will not attempt to exploit the combustible situation in the Soviet Union's Moslem southern republics.

Pragmatic leadership

For both sides, then, this is an accommodation made possible by the Soviet withdrawal from Afghanistan, the ceasefire in the Gulf war and the renewed ascendancy of a pragmatic leadership in Tehran. It may well be followed by overtures to the West, given Iran's need for foreign assistance, capital and weapons from a variety of sources. Mr Rafsanjani has already spoken of Iran's desire for "healthy, sound relations" with almost all countries (the explicit exceptions being Israel and the Najibullah regime in Afghanistan).

While the obstacles – ranging from the hostages in Lebanon to the lingering death sentence on the author Salman Rushdie – are formidable, western governments should continue to hold out the prospect of improved relations if Iranian policy changes.

But they should also be wary of attempts by Iran to play off East against West, especially in the field of re-equipping the country's battered armed forces. The main threat to regional stability remains the antagonism between Iran and Iraq, so the first priority for outsiders should be to encourage progress in their peace talks. While those negotiations remain deadlocked, it is in everyone's interest to avoid fuelling military machines on either side.

FT writers assess the prospects for today's EC summit in Madrid

That gloriously uncertain feeling

There is "a glorious uncertainty" about European Community summits, as Mr Jacques Delors, the Commission president, put it on Friday. Never has this been more the case than with today's meeting in Madrid when EC government heads get together to tackle the issues of whether to advance to monetary union and tack a social dimension on to Europe's single market.

With Euro-summits, as in sport, Mr Delors said "we never know in advance when we're going to win." At least there is no doubt, in today's game, which side Mr Delors is on. He chaired the committee whose report outlining a three-stage move to economic and monetary union (Emu) will be before EC leaders today. And it was he who first proposed a European social charter of workers' rights.

When heads of government get down to serious bargaining – particularly on an issue as momentous as Emu – Commission presidents, even of Mr Delors' stature, often get elbowed aside. Their role, rather, is to set out the agenda. Mr Delors has proved a master tactician in upping the stakes to try to get maximum movement towards European integration. He has the advantage, at this summit, of working with a president of the EC Council, Prime Minister Felipe Gonzalez of Spain, who broadly shares his views on monetary and social matters.

It is Spain's first presidency, and Mr Gonzalez is very keen to extract some unanimity from the summit, since it will provide the yardstick by which the success or failure of his presidency can be measured.

Mr Delors's aim is to try to make sure that EC leaders give most, if not all, of their attention to his committee's report. Mr Gonzalez has largely ensured this by promising that it will be the first subject to be discussed, and pledging it will get "all the time and attention it deserves."

But, in a move for which Mr Gonzalez may not thank him, Mr Delors was also publicly downplaying on Friday the immediate need for EC leaders to pronounce themselves on social policy. It may be that despite Mr Gonzalez's hopes for a decision in principle on social measures in Madrid, the issue will be set aside, perhaps as the price of buying British support for some form of monetary progress.

By David Buchan, Peter Bruce, Philip Stephens and Peter Norman

That is a price Mr Delors is prepared to pay. Socialist though he is, the Commission president believes that, above all, money is the key to faster European integration. Once the discussions on monetary affairs are under way, Mr Delors will try to ensure that *EC leaders* pronounce themselves on his committee report as a whole, to avoid them taking it apart and bargaining over the pieces.

About half the member states are fully in favour – led by the three big Latin states, France, Italy and Spain, and followed by Ireland, Greece and Portugal (who would like moves towards monetary union to be accompanied by more structural economic aid for themselves). On the other side, only the UK is clearly opposed.

The *key swing factor* is West Germany. Mr Helmut Kohl, the West German Chancellor, is a keen supporter of Emu as an idea, and has predicted that such a union could be in place by the end of the century. Last week in Paris, both Mr Kohl and France's President François Mitterrand agreed during talks "on the absolute need for progress" on both economic union and a social charter at the Madrid summit.

But Mr Kohl may be anxious to restrain any move by France and Spain for a precipitate advance towards Emu because of pressure from the Bundesbank, West Germany's independent central bank.

Mr Karl-Otto Pöhl, the Bundesbank president, said recently that economic and monetary union in Europe was no longer a utopia. The community was moving in a dynamic and "irreversible" process towards that goal.

Mr Pöhl also said, however, that it would be a grave error if negotiations on the revision of the EC Treaties, required for the second and third stages of the Delors report, were begun too soon. The Bundesbank insists, as Mr Pöhl puts it, on knowing at the outset that German monetary policy would be replaced by "the equivalent or better" at the European level. *According to one senior Bundesbank official*, it is doubtful whether a majority of the bank's council would approve the Delors report in its present form.

Despite Mr Delors's desire to keep his plan intact, even the Latin countries most enthusiastic about the project seem ready to start compromising. They want Mrs Thatcher to commit herself not only to the first stage of the Delors process – greater monetary and economic policy convergence, plus sterling's entry in the reasonably near future into the exchange rate mechanism of the European Monetary System – but also to wide-ranging changes in Europe's monetary institutions at some future date.

Indeed, the compromises started a month ago when EC finance ministers – including Britain's Mr Nigel Lawson – agreed on a formula which would lead to immediate preparation of stage one, but study, and study only, of "operational measures" involved in stages two and three. This would allow a decision on an intergovernmental conference to rewrite the Treaty of Rome to be taken "in due course." Mr Lawson emphasised that he had made no commitment to the later stages of the plan.

To *Mr Delors, this illustrates* that compromises can go too far. He sees the most important part of his committee's report to be the part which calls for "a single process" of advance to monetary union. If heads of government wanted to take a different approach, they should commission a different report, he said rather crossly on Friday. Nothing in Mrs Thatcher's political instincts incline her to meet the compromisers half way. No matter how often her EC colleagues tell her that the pass was sold when Britain signed the treaty of accession or the Single European Act, she cannot stomach the idea of Emu.

The issue poses for her, however, one of the most critical tests of her political career. The European elections turned out not – as her party had hoped – as a celebration of the impact on Europe of 10 years of Thatcherism in Britain, but as an apparent rejection by the electorate of her strident defence of British sovereignty.

The danger for her now is that a slump in the Government's popularity at home will be compounded by increasing isolation within Europe and by divisions within the Conservative party and the cabinet.

What is at issue is how the growing pressures from Britain's partners for increased integration should be handled – and here Mrs Thatcher's instincts are at odds with the preferences of Sir Geoffrey Howe, the Foreign Secretary, and Mr Lawson, the Chancellor.

She is said to be deeply suspicious of those in the Government who argue that compromise is the best way for Britain to achieve its own objectives. She reminded one minister recently that she had agreed last year at Hanover to the establishment of the Delors committee only because the Foreign Office had told her that its conclusions would be of little consequence. The section in the Delors report saying that acceptance of the initial stages of tighter monetary co-operation would involve a commitment to the entire process has confirmed her suspicions.

Many of her colleagues, however, believe that the process started by the Single European Act and the programme for the internal market had now become unstoppable. It cannot be fought in the same way as the budget battles of the early 1980s. So Mrs Thatcher has faced pressure from both Sir Geoffrey Howe and Mr Lawson to accept at least the first stage of the Delors report, including a firm commitment to take up full membership of the European Monetary System. Their argument is that the second and third stages of the process – leading to full economic union – can then be quietly shelved, without leaving Britain in unsplendid isolation.

Without such a move, the Foreign Office was advising Mrs Thatcher last week, the other members of the EC might by-pass the British veto on further monetary integration by pushing ahead with an intergovernmental conference to modify the Treaty of Rome. (Indeed, Mr Gonzalez has already mentioned such a conference.) Though such a conference could not alter the EC's founding treaty without British consent, it could in the worst case lead to a declaration of EMU by the other 11 states outside the framework of the Rome treaty.

To head this off, British officials have been suggesting that the UK might promise in the Madrid discussions to enter the EMS's exchange rate mechanism when three conditions are met:

● When inflation in Britain has roughly halved from its current 8 per cent to the average of existing EMS members.

● When the EMS has demonstrated its ability to survive the capital flows unleashed by the final abolition of exchange controls in France and Italy from July 1 next year.

● When the Single European Market planned for the end of 1992 has been shown to be complete in fact as well as rhetoric.

All three conditions are likely to take some time to fulfil. They do not contradict Mrs Thatcher's known desire that sterling should not enter the exchange rate mechanism at least until after the next General Election, due by Mid 1992.

How attractive this approach will prove in Madrid remains to be seen. Mr Gonzalez, for one, does not appear to expect that Britain must promise to join the exchange rate mechanism of the EMS before stage one of the Delors plan is under way. Provided that Britain's partners know that membership will happen sometime during the first stage, say his advisers, they would not seek to impose a deadline. But he is not prepared to accept a commitment to phase one without any link to the later stages, in the manner implied by Mr Lawson after the finance ministers' meeting.

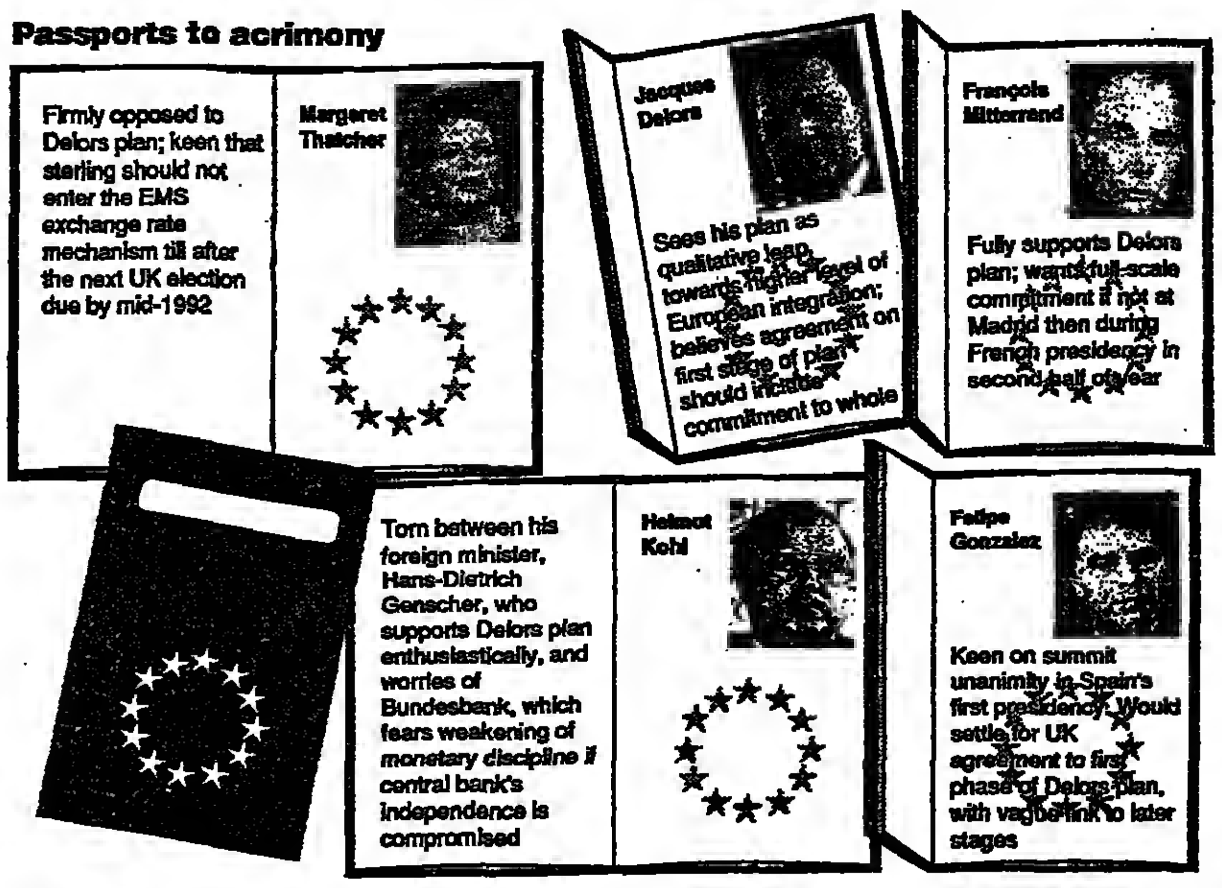
That approach falls some way short of Mr Delors's original hopes. It may in any case prove impossible to find a formula in stages two and three acceptable to Mrs Thatcher. For her also, however, there would be a price to pay for failing to reach agreement in Madrid. If Mr Gonzalez fails to achieve progress on the issue, the initiative passes to a country more used to confronting the British. On July 1, the EC presidency for the next six months is handed to France.

● Stage one: Greater convergence of economic performance among EC member states through strengthening economic and monetary policy co-ordination. All EC members become full members of the EMS on equal terms. Work begins on preparing EC treaty changes for stages two and three.

● Stage two: Begins after revision of the EC treaties, which requires unanimous support of member states. A transition period in which decision-making gradually shifts from the national to the community level. A European System of Central Banks (ESCB) starts coming to life, absorbing existing co-operative monetary arrangements. Macro-economic policy guidelines, including precise but not yet binding rules on the size of annual budget deficits in member states, are adopted. Fluctuation margins in the EMS exchange rate mechanism are narrowed ready for stage three.

● Stage three: Starts with an irrevocable move to lock exchange rates. Rules governing co-ordination in macro-economic and budgetary policy become binding. The Community is empowered to interfere with national budgets. The ESCB formulates and implements EC monetary policy, including exchange market intervention in third currencies. Reserves are pooled and managed by the ESCB. National currencies are replaced by a single currency.

Passports to acrimony



OBSERVER

South bank follies

■ It becomes increasingly clear to some of us who used to work north of the Thames that we had little to no idea of developments on London's south bank. The Rose Theatre is only one example. Even now, after all the weeks of publicity, the Rose still tends to be seen *in isolation*: one more lost cause to be fought for, or not as the case may be. There is not much of an attempt to look at the south bank as a whole.

To be sure, there must have been some improvements over the years. It is now possible to walk several hundred yards along the riverside without having to mount the steps to cross one of London's awful bridges. And even some of the worst developments must have been well-intentioned. The Hayward Gallery is a monstrosity to look at, but it does house some very good exhibitions.

One has always had a soft spot for the Festival Hall, not only because of the acoustics. Nowadays it can be a lively place to be, even if you are not going to a formal concert. The same may be said of the environs of the National Film Theatre. There are also some new developments slightly further to the east. For instance, there is a restaurant in the Chapter House of Southwark Cathedral, opened by the Queen last November, which is about twice as good and twice as cheap as some of the places just across the river. Unlike the main restaurant in the Festival Hall, it eschews nouvelle cuisine, though the Festival Hall still has the edge on the views.

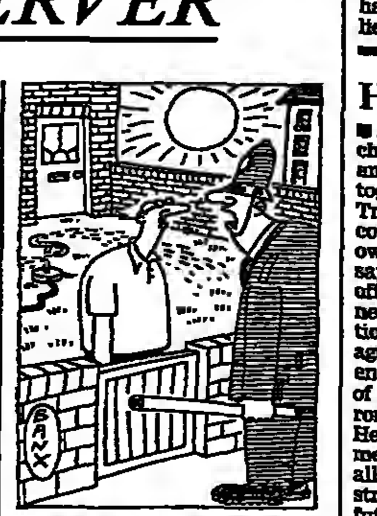
What is missing, however, is any apparent effort to put it altogether. No-one seems to say that the south bank is potentially one of the glories of London and we must seek to revive and extend it in a coherent way. Indeed whenever I have tried tentatively to make that suggestion, I have been told that we do not want to create yet another tourist attraction.

Apart from the incoherence, there is another objection to the higgledy-piggledy development. Although you will see some of the best of London on the south bank, there are still great areas of squalor and degradation. No-one seems to be in charge of the big picture. That would never have happened in President de Gaulle's Paris, and one is slightly surprised that it is happening in Margaret Thatcher's London. The opportunity exists to combine the best of the old with the best of the new.

Green science

■ The above lines were slightly prompted by a visit to a set of laboratories not far from Southwark Bridge. In the old days, before the Greater London Council was abolished, there was a huge, Soviet-like building called County Hall, where the GLC had its headquarters. Inside, though I suspect unbeknown to most of us, was an organisation named London Scientific Services. It looked after the monitoring of the environment – water, soil, air, noise and general pollution levels – for the GLC when green concerns were less prominent than they are today.

London Scientific Services has now been privatised and belongs to High-Point plc, an engineering and environmental consultancy group whose chairman, Ian Reeves, has ambitious hopes for the future. The labs were shifted from County Hall a few hundred yards along the river to High-Point's own premises. They remain pretty ramshackle, at least to the outside observer. But what is impressive is the dedication of the work-force and the potential, if unsung, success of a privatisation.



"Stop your sprinkler or I'll use this length of hosepipe on you"

The work-force – just over *100-strong* – wanted to be privatised because it thought that it would get better facilities and greater freedom in the private sector. But it also wanted to stay together and to continue to work for local authorities.

That is what has happened. London Scientific Services now works not only for the London boroughs, but is free to offer its services to any other local authority, or indeed any other client, public or private, British or foreign. If you want to see water systems being monitored for legionella, or Concorde being tested for its noise level at Heathrow, it is all switched on at the laboratories in Great Guildford Street, London SE1.

What is more, you will meet a generation of young, green scientists, thoroughly versed in computer systems. Although it would be rash to quote them individually, they all seemed to think that the Government began to turn green far too late. Industry would have been saved a great deal of money if statutory pollution controls had been introduced much earlier.

High ambition

■ Ian Reeves, the High-Point chairman, is, as I wrote, very ambitious. Having brought together Rendell Palmer & Tritton, the old engineering consultancy group, and his own High Point Services, he says that his company is now offering the full range of engineering services from construction, through financial management to advice on the environment and settlement of claims when the new environmental rules are broken. He did not entirely convince me that High-Point is the new all-purpose multinational construction boutique of the future, but he is only 44 and has some things going for him: such as the acquisition of London Scientific Services.

Corrections

■ There was a story going round Lords cricket ground last Thursday that Ted Dexter wanted to change its name to Lourdes, because only a miracle could save England from defeat. We withdrew it from Observer at the last minute because England seemed to be undergoing a slight recovery. But we all make mistakes.

A reader in Mid-Glamorgan points out that the brother-in-law of Gill Rowlands, Britain's first commissioner for the rights of trade union members, is not Clive Rowlands, as stated in Thursday's Observer, but Keith Rowlands. As the reader admits, however, both can be described as big men of Welsh rugby. Keith is the 6ft 5in ex-captain of Cardiff and second row forward.

Subtle

■ Line from a novel about life in Hollywood: "'Hello,' he lied."

James Buchan talks to James Ross, chief executive of BP America

Facing the future after Exxon Valdez

For the past three months, many people in the US have been talking about Alaska and Alaskan oil, the Valdez spill and Exxon's much criticised chairman, Mr Larry Rawl. Nobody has said much about BP and Mr James Ross, who runs the UK company's $15bn American operation.

But BP is twice Exxon's size in Alaska. Prudhoe Bay, the great oilfield on the Alaska North Slope that BP operates, may well be the most precious asset owned by British capital outside the UK. BP thinks it can produce 1.84bn barrels of oil from the reservoir, more than from all its North Sea fields. This is why Mr Ross is not happy with Mr Rawl.

"I would have to say," commented Mr Ross last month, "that there is a degree of feeling fairly annoyed at the damage the rest of the industry is suffering because of what happened that night at Valdez." Then Mr Ross breaks out of his convoluted English understatement and says what is really bothering him: "The Exxon Valdez is our industry's Three Mile Island."

Mr Ross, chief executive of BP America, is an elegant and precise manager who has worked his way smoothly round BP's worldwide organisation for 30 years. Unlike Mr Rawl, who believes that Exxon can do the job if only the reporters and politicians would get out of the way, Mr Ross has an eye for detail and a foreigner's excruciating sensitivity to local grievances. He accepts that the industry – including BP – is to blame for claiming technical mastery with oil spills it simply did not possess.

But Mr Ross has a serious problem. The Exxon Valdez raises questions about BP's future that ramify perilously. Will business be tougher in Alaska because of the spill? Has BP sunk a third of its total capital into an oil province with no prospects? And where does all this leave Mr Ross's strategy, which is little short of the Americanisation of BP?

A methodical man, Mr Ross deals with each question as it comes. In a recent interview at BP America's headquarters in downtown Cleveland, Mr Ross said: "Certainly, Alaska will be worse. It's $80m a year worse, and $200,000 a day worse."

The $80m (£51.6m) a year is the additional tax BP will have to pay on Prudhoe Bay production after the Alaska legislature last month, amid a public clamour to punish the industry, excluded Prudhoe Bay and its sister Kuparuk field (operated by Atlantic Richfield) from a tax benefit for mature wells known as the Economic Limit Factor. The $200,000 a day is BP's share of an interim operating plan to prevent further spills in Prince William Sound.

The ELF decision came as a horrible shock to the oil companies, which have lorded it over Alaskan politics for 20 years. It has made them even angrier than ever with Exxon. One chief executive threatened to send his share of the ELF bill to Mr Rawl. But the intangible costs are more troublesome. "The credibility of the industry has been severely damaged and the environmentalists have got a new lease of life. Relations in Alaska will never be the same again," says Mr Ross.

Prudhoe Bay, which began producing in 1977, would have reached its peak this year but for the Valdez interruption and will start declining roughly 10 per cent a year from 1990. To extend the life of its investment in Alaska's North Slope and the pipeline south, BP is hoping to drill in a promising stretch of coastal plain east of Prudhoe Bay.

The snag is that this eerie stretch of tundra was declared the Arctic National Wildlife Refuge (usually called Anwar) in 1960 and only an act of Congress will open it to drilling. The Exxon Valdez has put paid to all thought of Anwar oil for the immediate future. "I can't imagine we'll get it through this year now," Mr Ross says ruefully. "There's sure to be a couple of years delay."

Anwar oil, if there is any, will not begin to flow down the pipeline until the late 1990s at the earliest. By that time, Prudhoe Bay – which produced 642,800 barrels for BP every day last year – will be providing only about 100,000 barrels of oil a day for the company, and perhaps some gas. As Mr Michael Unsworth, an oil expert at Smith New Court in London puts it: "The Exxon Valdez has really cost BP in terms of the future potential of Alaska. I don't suppose they see it as an area of future exploration success any more."

James Ross: 'Relations in Alaska will never be the same'

The spill is the latest in a string of setbacks for BP in the 20 years since they found Prudhoe Bay. In 1969, BP tried a partial merger with Standard Oil, a down-at-heel Cleveland refining and marketing company that was the old Ohio business of John D. Rockefeller's sprawling Standard Oil Trust. Then in the 1970s and early 1980s, Standard spent a fortune trying to create a major oil company using the revenue they made from Prudhoe Bay. First it poured the North Slope cash into exploration in the continental US – where it had no land, geologists or experience – and duly found nothing. Later it put the money into copper mining and other diversified businesses and, finally, a $200m pink granite headquarters in Cleveland.

By early 1986, Sir Peter Walters, BP's deceptively mild chairman, had had enough. He sent Mr Robert Horton, a forceful and high-flying executive, to Cleveland. In a matter of months, Mr Horton cleared out the Standard old guard, wrote down the mining investments and stabilised the company, which BP then took over completely in early 1987. More surprisingly, Mr Horton – and latterly Mr Ross – have quite won over this tough but sentimental old city. BP now finds itself Cleveland's hometown company, its corporate trendsetter, social arbiter and patron of the arts all in one.

All this helped insulate BP from the shock of the Exxon Valdez. "Do we have too many eggs in Alaska?" Mr Ross says. "If I'd been asked eight years ago, when Standard was just a financial investment, when we were losing money in our downstream business and our chemicals, then I'd have had to say the company must have been at risk from something like Valdez. But times have changed. We've bought Britoil [a large UK independent oil company]. Our downstream and chemicals are making money. We're a much better balanced company."

Even so, BP America is still an Alaskan company. As recently as last October, BP America bought an $150m West Coast refinery and acquired a string of gas stations in Washington, Oregon, California and Nevada which have no real business purpose without a steady flow of Alaskan oil.

Mr Ross admits that BP America is still too small downstream and lacks good exposure to gas, a "clean" fuel which is widely seen as the energy source of the future for US households and much of industry. BP has wide strengths in chemicals processes, but only its acrylonitrile business – an intermediate used in fibres and plastics – is well developed in the US. And Mr Ross simply has not got the cash to diversify through a big acquisition of oil and gas reserves or downstream and chemicals assets.

As well as Britoil, BP in London also bought a large block of BP stock held by the Kuwait Investment Office. This has left BP with a reputation as the most aggressive company in the industry, but also with $9bn in debt. A disastrous share issue that coincided with the stock market crash in 1987 means that BP will have trouble approaching US or UK markets for equity capital.

"If the KIO thing had never happened, if our share issue had gone smoothly and we had 15-20 per cent of our stock in US hands, well, then I'd be looking at an acquisition a good deal sooner," Mr Ross says wistfully. "We'll have to drill and explore."

Wall Street, which would love BP to buy a mid-sized company such as Unocal, the West Coast oil company, has had to content itself with a series of worthy but small steps from Cleveland: lease purchases of potential gas blocks in the Gulf of Mexico, the purchase of the Lear gas marketing business, putting BP's name on the company's 8,500 gas stations in place of a chaotic array of five brand-names.

Though Mr Ross has a formidable ally in Mr Horton, Sir Peter's heir-apparent as chairman, he knows he will have to fight in London for resources to develop the US business. "The next step for me is to work a change of attitude in London," he says. "In my view, BP is still too much of a British company overseas. We have a tremendous opportunity to become a genuinely international company. It would be terrible to miss that opportunity."

LOMBARD

Self-inflicted wounds of sterling

By Samuel Brittan

THREE INTERNALLY generated beliefs are acting like heavy weights to drag down sterling unnecessarily. The first is the belief that intervention of any real size to support the pound has been ruled out.

The second is the market's suspicion that the Prime Minister is prepared to see sterling slide downwards on the belief that "you cannot buck the market." The third can only be described as the "Walters factor" stemming from the obsession by City commentators with the Prime Minister's personal economic adviser.

This aspect might be dismissed as chit-chat were it not for Sir Alan's known support for freely floating exchange rates. This is a perfectly respectable belief and one that I myself held for longer than I have held the opposite. It nevertheless makes the task of the Treasury and the Bank of England in supporting sterling greater than it need be.

Yet as far as I can discover, City fears on all these scores are misplaced, at least at present. There is no prime ministerial limit on intervention in the foreign exchange market, which is decided on a day-to-day assessment of where it might do most good. It is not at all closely linked to any of the trigger points against the dollar, D-Mark or the index discussed in the market.

Following a US initiative (itself stupidly leaked) most recent central bank intervention has been indirect and disguised. Reports from New York suggest that American intervention alone amounted to $6bn in the first four days of last week. Most of this has been part of the international operation to restrain the dollar, but some has been specifically for the benefit of sterling; and direct British intervention has also been in dollars.

Secondly, whatever the Prime Minister might think about a rise in sterling, she is certainly not indifferent to a fall. Anyone who doubts this might recall the Prime Minister's anger at the beginning of 1985 over the prospect of "a one-dollar pound." Her reflexes might not be as quick when sterling is falling against the basket for the D-Mark. But, irrespective of her theoretical convictions, she is far too conventional to want to take risks with a sinking pound, however measured. Whatever further battles may come in the future, in practice she now backs Nigel Lawson's policy, reiterated in Wales last Friday of "not undermining a firm monetary stance by allowing sterling to depreciate." Up to somewhere near the DM 3 level the Chancellor can just get away with talking about the modest range in which sterling has fluctuated in the last year. But at significantly below DM 3 such talk will not wash, as both he and the Prime Minister must be well aware.

Thirdly, so far from supporting a freely floating or depreciating pound, the Government would dearly love to see sterling appreciate. One under-emphasised aspect of Nigel Lawson's BBC interview of June 11 was his remark that a rise in sterling would be a useful help in tightening the stance of policy in the UK. An implication is that policy can usefully be tightened.

To desire sterling to rise from present levels is, of course, not the same as to secure it. In particular the market needs to be convinced that the Government would be prepared to raise base rates to the extent necessary, despite the short-term political costs. If the trade figures are not too bad and the Madrid Summit avoids disaster, such a test may be postponed.

Nevertheless it is an amazing self-inflicted handicap to allow beliefs about policy to spread which are the opposite of the truth. The misconceptions will remain until the Prime Minister gives a personal and explicit assurance of her opposition to sterling depreciation, and her endorsement of all measures designed to stop it.

In her carefully prepared Commons answer of June 13, the Prime Minister omitted a section opposing sterling depreciation, even though she had publicly and emphatically endorsed Mr Lawson's own Commons speech along these lines. Indeed the unfortunate people who have to explain British policy to the world had to do some quick thinking when she did not read out the expected sentences; and sterling has suffered ever since.

The suggested explanation – that she did not want to give hostages to fortune – can only undermine credibility. It amounts to saying that she will not take risks with her own reputation to support the currency policy of her own Government. And, although no one likes the search for scapegoats, the retention of Walters in office is – fairly or not – a symbol that encourages all those in the markets who believe that the Government is likely to abandon sterling when the going really gets rough.

There are other self-imposed weights on sterling. The Prime Minister's failure to endorse the Chancellor's IMF speech, which downgraded the importance of a current deficit when the Government's own balance is in healthy surplus, can only add to the exaggerated importance attached to the monthly trade figures. Nor can Mrs Thatcher's conspicuous omission of all mention in her own utterances of the underlying 6 per cent rate of inflation, exclusive of mortgage payments, in place of the headline 8.3 per cent, engender confidence that price rises are nearing a peak in the UK.

The failure to swallow pride and explain policy unambiguously is adding to the level of base rates required to maintain a given rate of sterling; and it is reducing the sterling exchange rate associated with a given level of base rates. Even if less-bad-than-expected trade figures provide a false sense of security, the danger points will recur in the course of the fluctuations inevitable in the months to come.

Earlier sterling crises were in no small degree due to what was said beforehand from Downing Street, authorised by the Prime Minister of the day. If there were to be a full-scale sterling crisis later this summer or autumn, it would have on it the words "Made in No 10" for all to see.

LETTERS

Tender business

From Mr Brian Sturgess and Mr Andrew Mills.

Sir, We read the letter from the chairman of the ITVA (22 June) with interest, but with little surprise. The views of the ITVA continue to reflect the interests of management rather than shareholders, viewers or taxpayers.

The proposal contained within the white paper that the ITC would allocate Channel 3 and Channel 5 franchises by a two-tier system of competitive tendering is both fair and efficient, especially when compared with the existing system.

We agree with the argument that the tender process should be public with resort to the courts. Allocating a scarce resource, which contains a natural monopoly element, by a system of competitive tendering is efficient. It ensures that large proportions of the monopoly rents generated from usage of the scarce resource is returned to the public. Bidders for a franchise in a given area are able to assess the costs entailed in meeting the Government's first-tier quality criteria and should be able to assess the present value of that likely revenue to be generated from acting within these constraints. Existing contractors should have an inherent advantage in being able to assess costs and revenue flows in deciding the value of their tender.

Problems may arise from two areas. One is that a contender may over-value a franchise and reduce expenditure on programming, either produced or commissioned, in order to maintain an acceptable level of profits. This problem may not be intractable as long as the ITC maintains a strict regulatory hold over the company's contract and can signal to management and shareholders that the terms of the franchise allocation are in danger of being breached. When combined with the possibility of takeover, it is feasible that a failed contender or another company could make a bid for the franchise holder, a condition of which is that the franchise terms are maintained. Within an optimum regulatory environment such a process of overbidding can only benefit the Treasury.

The second problem relates to the regional system. The perceived monopoly rents to be derived from the expectation of a Channel 3 or Channel 5 franchise may be more uncertain with a regime of competitive suppliers of commercial airtime compared with the stream of income that has been derived from selling under a system of regional monopolies. In the last franchise allocation round for franchises beginning in 1980, each region faced marked differences in the number of contenders. For a competitive tendering system to be efficient there must be more than one tender in each area. We have therefore calculated the optimal size of franchise area, based on a model of advertising yields under different competitive environments, sufficient to ensure an efficient allocation of franchises. Under the regional monopoly system and with the commodity market nature of commercial airtime sales in the UK, serious over- and under-valuations might be made of the potential steam of income from advertising airtime sales in each region. However, the possibility of takeover could lead to self-correction, although not necessarily to the advantage of the Treasury.

Brian Sturgess,
Andrew Mills,
44 Settrington Road, SW6

Another look at the charts

From Mr D.A.A. Fagandini.

Sir, It is remarkable that Samuel Brittan can once more delight us with his disquisitions upon the minutiae of the charts (Economic Viewpoint, June 21) when faced, on the opposite page, with a sombre assessment of yet another British industrial failure, the UK components industry.

The fact that countries with a strong manufacturing base have none of the problems we encounter, simply has no meaning for the chartists. Fiscal, monetary and exchange rate policies and counter policies provide sufficient data for endless charts for innumerable analysts producing only words.

Ten years of a self-styled, competent government has resulted in the re-appearance on TV of workers in one of our famed industrial dinosaurs, British Rail, determined to protect kith and kin until unemployment doth them part once more. Nothing has changed. Manufacturing in the UK remains comparatively abysmal in its achievements. Our erstwhile oil revenues have been invested abroad simply because there is little worth a pension fund's risk here. The only success story is that of the chartists. Upwards and/or downwards, they go on forever.

But, of course, we are a sovereign nation. With a £15 billion trade deficit we will be told by our creditors what the rate of interest has to be in order that we may use their goods without prompt payment. But we are sovereign nevertheless: we have the choice not to consume.

D.A.A. Fagandini,
6 Alleyn Park, SE21

High risk and high cost

From Mr Alan J. Leboff.

Sir, Mr De Bono's letter (June 17) on Lloyd's was excellent but as a Name for many years I focused on one sentence – "there is no way that realistic premiums can ever cope with infinite liability."

The managing director of an agency through which I am on two syndicates which have just made substantial cash calls in respect of years left open, tells me it has proved impossible to close the years concerned as "no one could be found to take over the open-ended risk for any amount of premium."

Quotations have been submitted to me for stop-loss insurance cover for 1990 involving high premiums and large excesses but they are now for a layer of cover only, so I continue to bear the cost of any real "nasties"; this must be the only area in which premium rates are hardening.

Underwriters of these stop-loss policies are recognising they need to collect large premiums if they are to bear sizeable risks but that even then they cannot accept infinite liability. I am starting to wonder if I want to be on syndicates which accept risks which involve infinite liability for relatively modest premiums. If the risks I bear in consequence are so great that no one will insure against the "infinite" element at any premium, perhaps the market is giving me a message I cannot ignore? I might still be prepared to make a modest investment in underwriting infinite risks if the return was commensurate – but my entire wealth, for a very modest reward? I would have to be mad.

Alan J Leboff,
Fobel International Plc,
29-34 Church Street,
Dunstable, Bedfordshire

Fighting homelessness requires an increase in new housing

From Mr Michael Pattison.

Sir, The warnings and proposals of the Royal Institute of British Architects in your report (June 12) make familiar reading. In our report, "Housing – The Next Decade," we pointed out that there is an acute and growing shortage of homes in Britain.

We said that to allow people real choice there was a need for a large increase in investment in new housing and in refurbishment of the old. This should be coupled with the introduction of an income support system applying both to owner-occupiers and to the rented sector. This would relate income to housing costs and provide adequate help to allow all households to meet their housing needs.

Homelessness is increasing, and with it the cost to local authorities. At the same time, council house sales have increased capital resources that are not being reinvested in housing. Central government has a £14bn budget surplus, some of which could go into financing housing-specific income support and investment in housing for rent.

Recent legislation designed to encourage the private rented sector is a step in the right direction. But what is not required is a review of homelessness legislation. It is widely predicted that the outcome of this review will be an attempt to disguise the extent of the homeless problem.

What is required is action to promote investment in new housing and the ability of all to afford decent homes. Absence of this is causing unnecessary social and economic harm.

Michael Pattison,
The Royal Institution of Chartered Surveyors,
12 Great George Street, SW1

FINANCIAL TIMES
Monday June 26 1989

Janet Bush
on Wall Street

When the liquidity dries up

"In retrospect, it was a fragile capital structure." So Mr Arthur Goldberg, president of Integrated Resources, summed up – in what may prove one of the understatements of the year – the liquidity crunch which could force his company into the bankruptcy courts.

It may also prove a suitable epitaph for other companies the growth of which was largely financed by Drexel Burnham Lambert and which may also run into trouble because there was a mismatch between the nature of their business and the debt they assumed.

The fragility Mr Goldberg talks about is this. Integrated Resources originally made its money promoting property tax shelters, but tax law changes in the mid-1980s forced it to diversify. Using junk bonds from Drexel, Integrated built up a network of around 4,500 financial planners selling interests in limited property partnerships, insurance and leveraged buyout investments.

The trouble was not so much creative accounting, as some have suggested, but the fact that much of its business offered a stream of income some years off, yet there were high up-front costs and a lot of short-term debt – some of it demand debt – to be serviced.

One example illustrates the problem. Integrated booked its interest in limited partnerships as $712m in receivables when it expected cash flow of only $50m over the next five years.

The solution was to borrow more and more and the company accumulated over $1.8bn in debt, which left it vulnerable to a period of slow business and a loss of confidence.

Within the last two weeks, we have seen one of the swiftest falls from grace of any highly leveraged company. "The notable aspects of the case of Integrated Resources is the sheer size of the debt in question and the suddenness with which everything went wrong," said Mr Leigh Walzer of R.D. Smith which specialises in analysing distressed and bankrupt securities.

Integrated helter-skeltered into illiquidity. Its creditors became worried when a deal to inject capital into Integrated was called off. I.C.H. was to have paid $157m for 7.5m new Integrated shares. Mr Goldberg sold 10,000 shares that day.

On Wednesday, June 14, Integrated said short-term lenders would not advance any more funds. The next day, it halted principal and interest payments on all its holding company debt. Some of its junk bonds fell to 25 cents per $1 from more than 60 cents only two days earlier and its common stock plunged from a high last month of $18 a share to $4¾ on Friday.

At a meeting last Monday, Integrated asked commercial paper and short-term bank creditors to convert paper with maturities as short as 45 days to notes with a life of 18 months to two years.

This restructuring does not include holders of $927.5m in senior and subordinated debt, up to $600m of which is in junk bonds. If Goldman Sachs – hired by Integrated to help it out of its crisis – does not persuade the short-term creditors to accept their proposals, the company may still have to file for bankruptcy.

That would leave holders of the senior and subordinated debt in a weak position because the commercial paper and bank lenders would be paid first, leaving only the dregs to bond holders.

Another option, which would embrace all creditors and stave off what many believe would otherwise be bankruptcy, was then proposed by Mr Robert Bass, the Texas investor. He said he was prepared to commit cash – reportedly as much as $200m – as long as all creditors agreed to a restructuring.

The intervention of Mr Bass probably partly reflects the savvy investor's talent for taking advantage of crisis conditions. But, according to one observer who knows Integrated well, it also reflects the fact that the company genuinely has some good assets. There is a good chance, he believes, that Goldman Sachs will be able to restore confidence and create a company with a proper capital structure.

The story here was not so much that Integrated's business was intrinsically bad but that the financing of its growth was misconceived.

That didn't much matter under the leadership of Mr Michael Milken because he had the clout to force bond holders to accept exchange offers. If Mr Milken had still been at Drexel, the last two weeks may never have happened. But a business cannot rest on the reputation of one man.

INDUSTRY LIKELY TO FACE TOUGH NEW LEGISLATION

US suffers three major oil spills

By Peter Riddell, US Editor, in Washington

THE US Government moved rapidly over the weekend to contain the impact of three separate large oil spills along the north-eastern and southern coastline, two of which seriously threaten wildlife and fishing.

The spills were of 650,000 gallons of home heating oil into the tourist and fishing area of Newport, Rhode Island after a Greek-owned tanker hit a reef; 800,000 gallons of crude oil into the Delaware River after a Uruguayan tanker ran aground 15 miles from Philadelphia; and 250,000 gallons of crude oil into a shipping channel in Galveston Bay after a barge collided with a tanker 20 miles south of Houston in Texas.

Coming only three months after the environmental disaster of the Exxon Valdez spill of nearly 11m gallons into Prince William Sound in Alaska, the new incidents are a serious further embarrassment for the oil industry and make more likely tough legislation in Congress.

Potentially the most serious environmental problems are at Rhode Island, where the spill occurred near the leading tourist and sailing resort of Newport as well as near wildlife and fishing areas. Though 70 per cent of the heating oil, which is very light, should evaporate within three days of the spill, it is toxic to marine life and shorebirds.

Senior members of the Bush Administration rushed to Rhode Island within hours of the accident and also visited the Delaware River. They were keen to demonstrate an active government response following widespread criticism of a slow reaction to the Alaskan spill.

Mr Richard Breeden, a presidential assistant in the White House, promised that "every resource of the Federal Government" was being made available.

The US Coast Guard moved quickly to take charge in each case, hiring private contractors to limit the damage and help the clear-up. This was also in contrast with Alaska where the Administration initially put faith in Exxon's efforts without Federal involvement.

Mr James O'Neill, Attorney General of Rhode Island, said yesterday that the captain of the Greek tanker World Prodigy and his senior officers had been summoned to appear before a Grand Jury over the incident and the owners and captain might face both civil and criminal charges.

The new incidents will intensify pressure for more resources to be made available both to prevent and deal with such environmental threats.

The oil industry last week announced plans to establish five regional spill response centres at a cost of $250m over five years, while this Wednesday a House committee is due to vote on whether to extend by one year a moratorium on offshore oil leasing in parts of Alaska, the East Coast and California.

Mexico urged to agree deal with banks

By Peter Riddell, US Editor, in Washington

MEXICO and its commercial bank creditors are being encouraged by the US to agree on a debt reduction package before the seven-nation summit of industrialised countries in Paris in three weeks' time.

Mr David Mulford, US Treasury under-secretary for international affairs, expressed cautious optimism over the weekend about progress in the talks. He was speaking as the commercial bank creditors were preparing new proposals for Mexico on discounts to be offered on loans.

An agreement between Mexico and its bankers is seen as crucial to the success of the revised debt strategy launched in mid-March by Mr Nicholas Brady, the US Treasury Secretary. Both the International Monetary Fund and the World Bank have already agreed to provide resources to back and reinforce any debt reduction plan.

Mr Mulford said: "It would be highly desirable to see the Mexicans and the banks come to a sort of in-principle agreement by the time of the economic summit. That is because I think there's some leverage given by the summit on those negotiators to come to terms."

The Paris summit has been set as an informal target by all involved, not least because the US wants to be able to point to a success for its revised debt strategy. French President François Mitterrand, the summit's host, is expected to propose a new $10bn fund to help debtor countries, but Mr Mulford said this plan "does not have broad enough support and won't, even in the event of an absolute failure."

Commenting on the Mexican talks to date, Mr Mulford said that real negotiations had been under way for only two weeks since the information meeting on June 7 when the banks were given full details of what resources the IMF and World Bank would make available.

"Although Mexico and the banks had been sort of negotiating, and posturing with each other – a great distance apart – before that time, and therefore that was reported as negotiation, the serious negotiation has only begun since June 7. They have made some progress up to today. They will make some progress this week," said Mr Mulford. "Whether or not they will complete a deal in the next two or three weeks is an open question, but certainly it won't take the six months to a year that has been characteristic of the past."

Stressing the voluntary nature of the talks, Mr Mulford none the less said the US Treasury was "encouraging" the banks in every way. But he suggested that they did not need much encouragement "because they stand to face enormous losses if they can't capitalise on the present situation and take advantage of the offer that has been made to them."

Sikh attack leaves 25 dead in north India

By K.K. Sharma in New Delhi

AT LEAST 25 Hindus were killed and 22 injured yesterday when Sikh terrorists hurled bombs and fired on a rally in the Punjab town of Moga organised by the Rashtriya Swayamsevak Sangh (RSS), the most powerful and militant Hindu organisation in northern India.

Although indiscriminate terrorist killings in the north-west Indian state are a daily event, yesterday's massacre has caused concern among the Punjab authorities, who interpret it as an attempt by Sikh extremists to create sectarian tension and intensify the rift between the Hindus and Sikhs in the state.

Moga has been placed under indefinite curfew and security forces have been alerted in Punjab and adjacent states to prevent an outbreak of communal violence after the attack.

The attack signals an intensification of terrorist activity in Punjab and brings to nearly 50 the number of deaths over the weekend.

Yesterday's killings are thought to be part of the terrorist strategy to provoke communal strife and retaliation against Sikhs in Punjab and other parts of India. This was encouraged first by the late extremist leader, Sant Jarnail Singh Bhindranwale, who was killed in the Indian army action in 1984 on the Golden Temple in Amritsar, the most important of the Sikh shrines.

Sant Bhindranwale's aim was to force Hindus to migrate from Punjab and Sikhs in other parts of the country to flee to Punjab to facilitate the creation of independent Sikh state to be called "Khalistan."

Sikh extremists have used terrorism for more than five years to press demands for an independent Khalistan – demands which have been rejected by the Indian Government.

Punjab has been under President's Rule, or direct government from New Delhi, for more than two years. This followed the dismissal of an elected Government formed by the Sikh Akali party after it failed to check terrorism.

Iran-Soviet agreements 'worth over $6bn'

By Our Foreign Staff

IRAN and the Soviet Union concluded agreements on economic and industrial co-operation worth more than $6bn last week, according to IRNA, the official Iranian news agency.

The agency quoted Mr Mohammed Jevad Iravani, Iran's Economy and Finance Minister, as saying that under the agreements, oil exploration would be carried out in the Caspian sea, Iran's natural gas could be piped to Europe through Soviet pipelines and that seven dams would be built jointly on five of the country's rivers.

"The agreements reached by Tehran and Moscow on economic and industrial co-operation are worth more than $6bn," he was quoted as saying.

Mr Iravani was a member of the delegation to Moscow last week which was led by Mr Ali Akhar Hashemi Rafsanjani, Speaker of the Iranian Parliament.

Tehran's newspapers have been full of descriptions of the success of the visit. An editorial in yesterday's Tehran Times said: "Soviet technology may not be as superior as Western technology, but this disadvantage can be made up for amply through the relatively lower prices of Soviet goods."

At a news conference, Mr Iravani said: "Eight thousand megawatts of electricity will be added to the country's national network once two power stations in Isfahan and Ahvaz are developed and new power plants are set up."

Much of Iran's power network was damaged during its eight-year war with Iraq.

Tehran would start exporting up to 3bn cubic metres of gas to the Soviet Union from early 1990, the Minister said, adding that the price of natural gas would be determined according to international base prices.

Moscow had agreed on a project for electrifying rail lines between Tehran and the holy city of Qom, between Bafq and the southern port of Bandar Abbas, and between Tabriz and Tehran.

UK offers no timetable

Continued from Page 1

1992. She has made it clear that a fall in the British inflation rate and the elimination of capital controls by other Community countries would not in themselves be enough to change her view on the EMS.

The Prime Minister made that view public during the European elections campaign when she said that there were "many, many other" factors to be taken into account. Whitehall officials said that Mrs Thatcher remained unconvinced that the exchange rate mechanism would survive the removal of controls on capital movements.

More fundamentally, she still doubts whether it is feasible for Britain to attempt to set targets both for inflation and the exchange rate.

At the same time she is determined not to agree to stages two and three of the Delors report – designed to lead to full monetary union.

But Sir Geoffrey, who will attend the summit with the Prime Minister, has stressed that unless the Government at least changes the presentation of its long-standing formula on the EMS – that it will join when the time is right – then it risks both isolation in Europe and considerable political damage at home.

The domestic political concerns will have been heightened by a new opinion poll published at the weekend showing that the opposition Labour party had widened its lead over the Conservatives. The poll, published by the Observer, put Labour 14 points ahead of the Conservatives.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	-	-	-	Dubrovnik	F	24	75	Malta	S	28	82	Rhodes	S	27	81
Algiers	C	33	91	Edinburgh	C	17	63	Manchester	S	21	70	Rio de Ja	-	-	-
Amsterdam	S	24	75	Faro	S	31	88	Manila	F	34	93	Rome	F	28	82
Athens	S	28	82	Florence	F	28	82	Melbourne	S	11	52	Salzburg	S	23	73
Bahrain	S	37	99	Frankfurt	F	24	75	Mexico City	C	22	72	San Francisco	C	16	61
Bangkok	F	34	93	Funchal	-	-	-	Miami	R	29	85	Seoul	F	29	84
Barcelona	F	28	82	Geneva	S	25	77	Milan	S	27	81	Singapore	R	32	90
Beirut	F	30	86	Gibraltar	S	32	90	Montreal	F	20	68	Stockholm	S	21	70
Belfast	C	18	64	Glasgow	R	13	55	Moscow	F	27	81	Strasbourg	-	-	-
Belgrade	F	25	77	Guernsey	S	18	64	Munich	S	22	72	Sydney	C	14	57
Berlin	S	25	77	Helsinki	F	23	73	Nairobi	C	21	70	Taipei	F	34	93
Biarritz	-	-	-	H. Kong	C	27	81	Naples	C	22	72	Tangier	S	26	79
Bombay	-	-	-	Innsbruck	S	21	70	Nassau	C	30	86	Tel Aviv	S	28	84
Bordeaux	-	-	-	Inverness	R	16	61	New Delhi	S	37	99	Tenerife	S	25	77
Brussels	F	28	82	Islamabad	F	41	106	New York	C	20	68	Tokyo	F	26	79
Budapest	F	26	79	Istanbul	F	28	82	Nice	-	-	-	Toronto	F	21	70
B Aires	F	19	66	Jakarta	C	33	91	Nicosia	F	37	99	Tunis	S	29	84
Cairo	S	35	95	Jersey	S	21	70	Oporto	S	21	70	Valencia	S	28	82
Cape Town	C	11	52	Jo'burg	F	17	63	Oslo	F	17	63	Venice	S	28	82
Caracas	R	28	82	Lima	F	26	79	Paris	F	27	81	Vienna	S	23	73
Casablanca	-	-	-	Lisbon	S	30	86	Peking	F	34	93	Warsaw	S	24	75
Chicago	F	30	86	London	S	25	77	Prague	F	23	73	Washington	S	23	73
Cologne	S	25	77	Los Angeles	C	24	75	Reykjavik	S	11	52	Zurich	S	24	75
Copenhagen	S	20	68	Luxembourg	F	23	73								
Corfu	S	26	79	Madrid	S	33	91								
Dallas	-	-	-	Majorca	S	29	84								
Dublin	C	17	63	Malaga	S	27	81								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Soviet property laws call

Continued from Page 1

forms of property ownership are all given equal emphasis.

On the creation of a market economy, the resolution calls for the establishment of "a market in securities and investment resources" – not quite a whole-hearted commitment to a stock exchange, but a clear step in that direction.

It says that the government should also "take the necessary measures broadly to develop economic competition, and the struggle against monopolistic phenomena."

In calling for an experiment to pay farms and farmers in foreign exchange, it has adopted the idea of Mr Nikolai Shmelev, a radical economist always regarded as well outside the official line.

The resolution also calls for a string of urgent legislation to be approved, most of which was in the pipeline, but with no obvious order of priority. This will include a new law on "socialist enterprise," a law on leasehold ownership, on a single taxation system, on decentralisation of economic authority to republics and local authorities, a press law, and a law on the freedom of conscience and religion.

It says that the Supreme Soviet, or its chambers, should also specially investigate the reasons for the Soviet invasion of Afghanistan, and report to the next Congress in the autumn.

Special inquiries are also called for on the string of ethnic problems which have blown up, including the resettlement of Volga Germans, Crimean Tartars, and Meskhetian Turks, and the dispute between Armenia and Azerbaijan over Nagorno-Karabakh.

Peking purges liberals

Continued from Page 1

of Deng, who is 84, and would not be able to operate without his blessing before then.

Yang Shangkun, China's President, is also believed to have played a large behind-the-scenes role. Yang controls the army through his his relatives, who hold senior positions.

Yang's prominence was indicated by a photograph in the People's Daily, in which be appeared with six members of the new standing committee. He is not a member himself.

A wanted notice was issued at the weekend for seven leading intellectuals, including Yan Jiaqi, a prominent political scientist, and Su Xiaokang, author of the controversial television series called River Elegy. Also on the list was Wan Runnan, head of the Stone Corporation, a successful high technology corporation. Wan supported efforts to overturn martial law.

THE LEX COLUMN

Distant clouds over the Abbey

It is an unfortunate irony that the TSB is set to release another disappointing set of interim figures on Thursday, the same day that the Abbey National rights issue closes. It is a long time since there has been a major new issue which has performed as badly as TSB, and although there are plenty of differences between the Abbey and the TSB, there are many similarities. The TSB was brought to the market on seemingly generous terms, yet its rating has steadily deteriorated, and there must be a worry that after the initial euphoria, the Abbey's stock market rating will suffer a similar fate.

In common with the original TSB issue, the attractiveness of the Abbey pricing ensures that its shares should open at a healthy premium next month. But shareholders will still have to decide whether they want to stick with the Abbey over the long term, or whether they should take a quick profit and pop their money back on deposit in the next building society which might follow Abbey's lead. It is not an easy question to answer.

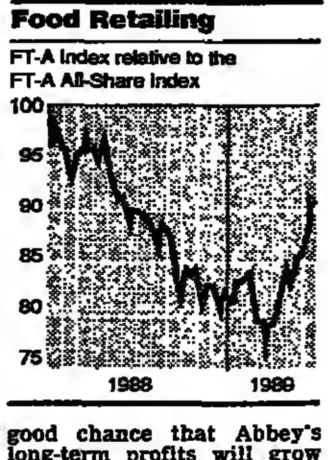
Abbey has plenty of advantages, and has quite sensibly concluded that there is nothing to be gained by calling itself a bank, even though this is what it is. It is one of the biggest and most successful mortgage lenders in the UK, it has a reasonable management team and an enviable record of product innovation. It has an exceptionally clean balance sheet, sufficient capital and has presumably learned enough from the TSB's unfortunate experiences that it will not make the same mistakes.

The downside is that while the current slump in the UK housing market is temporary, the long-term growth in new mortgage lending – Abbey's single biggest product – is likely to slow dramatically over the next decade. At the start of the 1970s house ownership totalled 50 per cent of all dwellings. It is now 65 per cent – one of the highest rates in the world – and it is hard to see the penetration increasing substantially. There is also a risk that a new Government might clamp down on borrowers removing equity from their homes.

Abbey's compound profit growth of 37 per cent per annum since 1984 is not a realistic guide to the future. If it is to grow its profits and dividend faster than the clearing banks – against which it must be judged – it will have to diversify into new areas. Given the recovery potential in the UK banking sector there is is a good chance that Abbey's long-term profits will grow more slowly than the rest, and by diversifying it risks diluting its superior loan quality and lean cost structure, which gives it such an edge over its clearing bank competitors. The UK banks are the most lowly rated sector in the stock market, and as yet there is no good reason either why this should change, or why Abbey should be treated as an exception.

Food Retailing

FT-A Index relative to the FT-A All-Share Index



Food retailers

Gateway's supermarkets may never have been pacesetters, but its shares have recently been just that. Since the Isosceles triangle was formed, the entire food retailing sector has switched from being one of the market's worst sectors to its best, outperforming by 20 per cent.

If the relation is cause and effect, it is a pretty devious one. The giants of the industry, Sainsbury and Tesco, are as good as bid-proof, and although Asda has arbitrageurs on the register, the sort of premium needed for control would make the sums look impossibly stretched. There may be more bid excitement to come among the sector's small fry, but then that would be nothing new.

The argument that the Gateway bid will benefit its rivals directly also looks thin. There is no reason why the £2bn cash should flow back into the sector, as the removal of Gateway will reduce the weighting of food retailers overall. Perhaps the heavy borrowings of Gateway's new owners will make it less formidable competition; equally, sharper new management could increase the threat.

The Gateway bid seems to have prompted a rethink of how the sector should be valued. Three months ago the talk was of increasing competition in the industry, and of a slowdown in consumer expenditure; now it is about the excellent quality of earnings and the ability of the mega-chains to go on increasing margins. The views are not inconsistent; indeed the food retailers display both traits. It is odd, though, that the market's about-turn comes when prospects for the sector are deteriorating with rising interest rates. The formidable expense of opening superstores – Sainsburys' and Tesco's annual capital expenditure is more than British Steel's – is putting more strain on the sector's balance sheet. The best sense that can be made of the rally is that it corrects a movement that bad gone too far the other way. But in awarding Sainsbury a prospective multiple of almost 15, for instance, the market surely has forgotton that competition remains cut-throat, and the consumer under pressure.

European chemicals

The world's chemicals giants are no doubt right in arguing that life as we know it would be impossible without them. But as the green machine gathers speed in Europe, the industry is increasingly seen as destroying rather than enhancing the quality of life, through environmental pollution. And though vast sums are already spent by the companies on combatting both the reality and the image of environmental damage, dramatically higher spending could be forced on them in the near future.

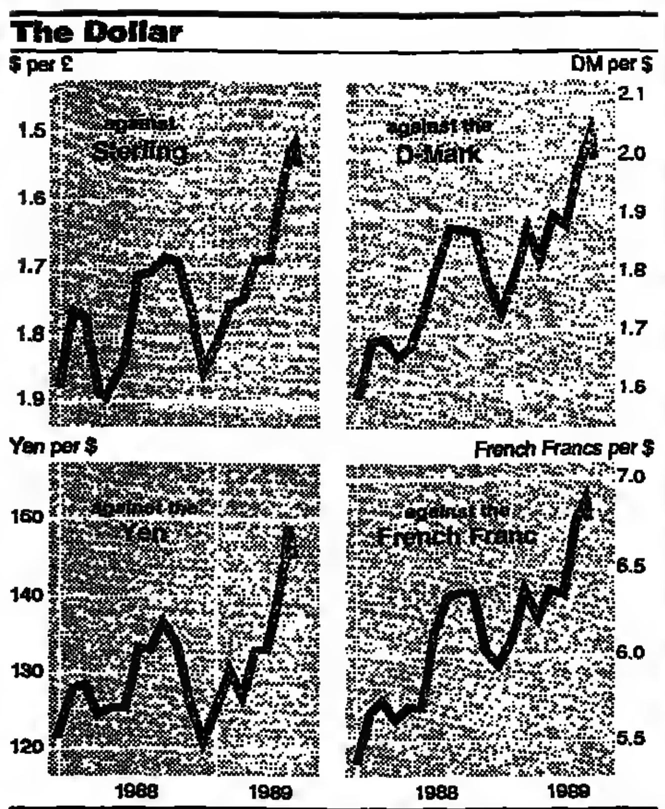
Montedison has never been in the vanguard of environmental rectitude, so it was hardly surprising to see it singled out for protest at last week's AGM. But Montedison is not alone in coming under public pressure over pollution; indeed, protecting the environment is arguably the largest problem the world chemicals industry will face over the next decade.

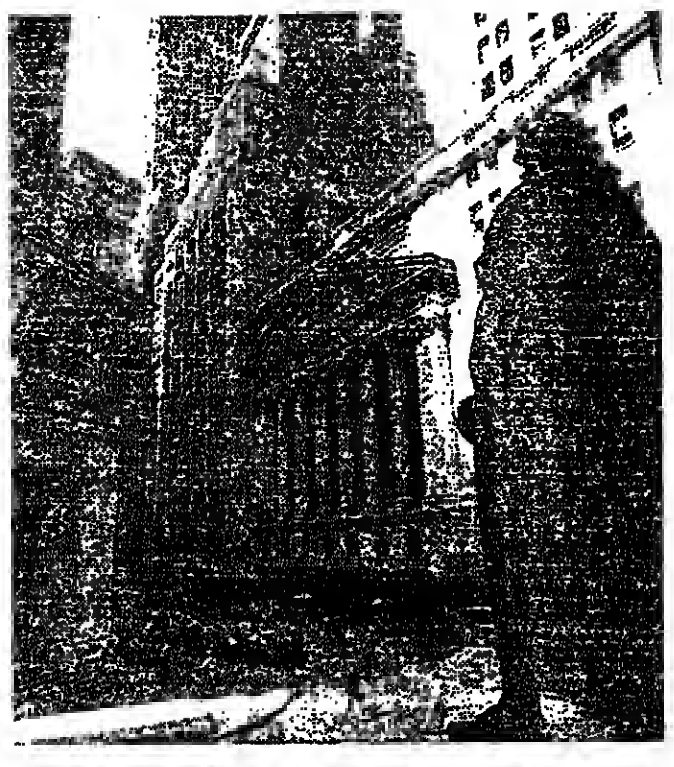
Profitability will inevitably be threatened as companies spend more on cleaning up the environment, and demand for some products could be affected by consumer aversion. Indeed, it is already accepted that use of PVCs and other plastics will decline over time because of public opposition; and companies could soon end up spending as large a percentage of turnover on non-profit generating environmental concerns as they do now on R&D. The West German majors already do so, spending 3 or 4 per cent of turnover on the environment. The figure for ICI is half that; but with 15 per cent of the British population lining up on the side of the greens, it may not be so for ever.

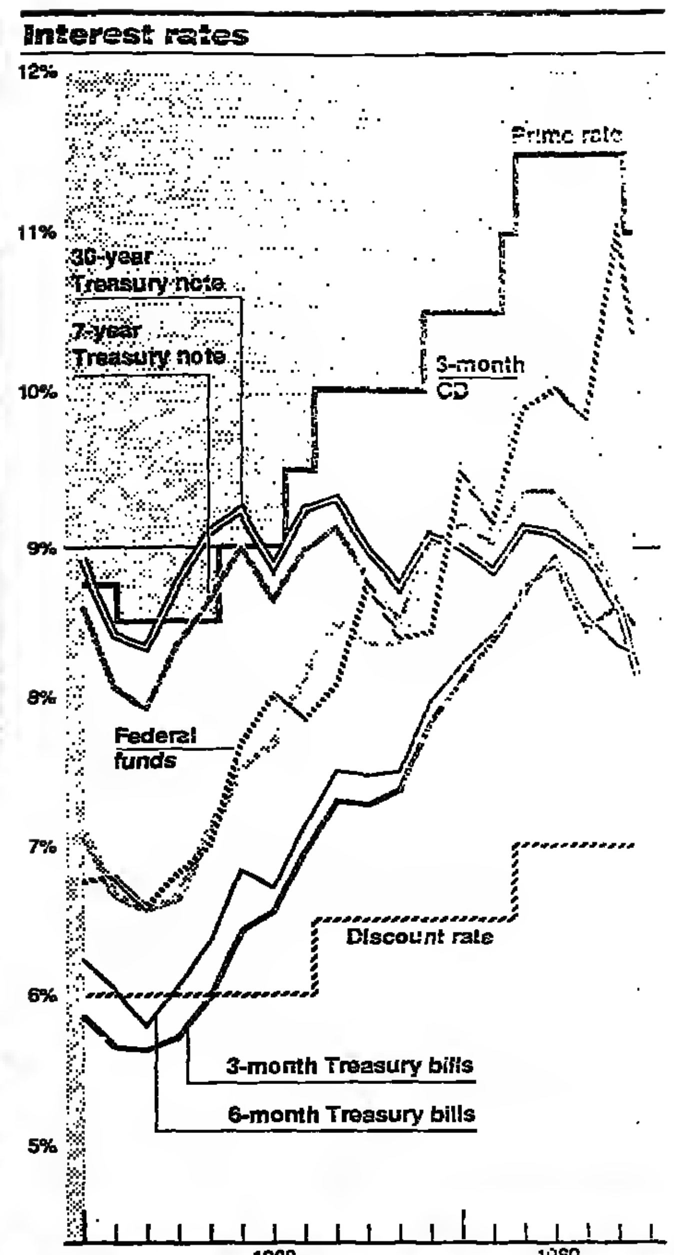
SECTION III

FINANCIAL TIMES SURVEY

The challenge facing managements in many US financial institutions is to hold the rudder of operating discipline with an iron grip as they navigate the dangerous shoals that lie immediately ahead, reports **Anatole Kaletsky** in New York




All over Wall Street (above), investment banks and stockbrokers are pulling out of unprofitable lines



US Finance and Investment

A mood of caution

AFTER NINE months of almost continuous advances, US stock prices this spring stood only five per cent below the all-time records they reached two years ago, at the height of the great bull market.

The bond market, too, had enjoyed its strongest rally in three years. Long-term interest rates were back to their levels of the spring of 1987, when the US Treasury's 30-year bonds last yielded less than 8¾ per cent for an extended period.

Even the dollar was riding high again this summer – and if wild swings in currency markets were *still giving the* world's central bankers headaches, these anxieties related not to the dollar's weakness, but to its irrepressible rise.

On the face of it, then, the US financial markets in the early summer of 1989 were just about as strong and bullish as they had ever been in the post-War era. Yet while the markets' recovery from the seizure of Black Monday seemed virtually complete, there was no sign of the euphoria in the financial community which was so evident two years ago.

Indeed, the mood in the financial world today seems to be one of caution, austerity *and grim determination* – to cut expenses, squeeze manpower, maximise efficiency and limit risks.

All over Wall Street, investment banks and stockbrokers are pulling out of unprofitable lines, paring unproductive staff and instituting new, tighter, risk-management systems. The big commercial banks, meanwhile, are scaling back their earlier ambitions to move into, and ultimately dominate, the securities industry.

Even the regional banks, whose business was virtually unaffected by the traumas of Black Monday, are responding more *cautiously than many* analysts had expected to the opportunities created by the *liberalisation* of inter-state merger laws and the Federal Government's costly clean-up of the savings and loan debacle.

With all the talk of battening down the hatches, Wall Street, in particular, seems more like a community preparing for a new financial hurricane than reconstructing after the last one. There are at least three reason for this disjunction between the bullishness of the markets and the pervasive gloom among financial firms and their employees.

■ Firstly, the rise in the markets has been a profitless one for most financial businesses. On Wall Street, the rise in prices has not been accompanied by the hoped-for massive retail participation and growing trading volumes.

The bond market's improvement has been too abrupt and volatile to generate the easy profits dealers became accustomed to in the glory days *between* 1982 and 1986.

Many commercial banks probably have made big profits from *the* recent *surge* in *foreign* exchange trading and could well benefit further from the recent easing in monetary policy. But, with their continuing anxieties about Third World debt and the declining quality of real estate lending, commercial bankers will need far more evidence of an improvement in financial conditions before they are ready to cheer.

■ Secondly, the psychology of this bull market is not what it was two years ago. In early 1987, interest rates may actually have been rising and the economic under-pinnings of the stockmarket may have been weakening, but Wall Street was projecting ever-rising prices and many financial executives seemed willing to take expansion decisions on the basis of next year's projected revenues and profits, not just the ones that were already in the bag.

Today, there is far less willingness to take the bull market and the enormous international inflows into the dollar *for granted.*

■ Thirdly, the mood remains cautious because the financial *community still has a long way* to go before all of the rhetoric about austerity is translated into the reality of *actual cost* reductions.

While the securities industry, for example, managed to cut both its employment numbers and its payroll expenses by 9 per cent between 1987 and 1988, the number of people employed in the industry last year was still 70 per cent higher than in 1980 and 11 per cent higher than in 1985.

Meanwhile, the industry's occupancy and equipment expenses have continued to rise inexorably, growing by 12 per cent in 1988. Commercial banks have experienced similar difficulties in reducing expenses after locking themselves into costly long-term property commitments as well as high staffing levels during the boom years of the mid-1980s.

Despite the cutbacks of the last 18 months, in other words, most financial service companies are still better structured to operate in a bull market than in an extended period of declining business.

In the short to medium-term, *this could mean further serious* problems to be addressed in the next few years. For while the caution which is so evident today on Wall Street suggests that the present bull market may still have some way to go and that financial businesses of all kinds could well look forward to a brief spell of renewed prosperity, the medium-term prospects are, if anything, less favourable today than they were two years ago.

Despite the recent mild weakening of employment growth and production, the US and world economies seem to be moving into a classic end of cycle period, in which capacity constraints and tightening labour markets lead to accelerating inflation and eventually, though not perhaps until a year or more later, a policy-induced recession.

Last year's alternate fears of recession and inflation in the financial markets may have been premature. But by this time *next year*, the earlier concerns will probably look more prescient than the recent surge *in bond and stock prices*, based as that is on the assumption that the US economy is about *to enjoy a "soft landing."*

For while the Federal Reserve Board has undeniably managed monetary policy skilfully, to ensure a "soft" deceleration in the economy, it is by no means clear that this slowdown can be described as a "landing."

Inflation remains ingrained and a policy-induced recession, with the attendant disruptions in the financial markets, is likely to be required to eradicate it, though not perhaps until late next year or even 1991.

Yet looking beyond the obvious cyclical problems, the pros-

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Anatole Kaletsky examines the longer-term prospects for US business expansion

The economic recovery continues

FOR THE seventh year running, the US has managed to defy the Cassandras who have been raging against the country's economic policy and prospects for most of the last decade.

It now seems almost certain that the business expansion which began in November 1982, according to the official statistics, will survive at least until its seventh anniversary. And judging by the forecasts being churned out by virtually all the US economic models, it is extremely likely that growth and prosperity will continue for at least another year after that.

If the economists are right, the long expansion of the 1980s would come very close to breaking the all-time record for an uninterrupted period of prosperity – a record which was set in the 1960s, when the US economy grew without recession for 8¾ years from February 1961 until December 1969.

Much more importantly, continuation of the economic recovery would help to vindicate the US Government, as well as the country's businesses and individuals, in their decisions to take on debt burdens which seemed highly imprudent a few years ago.

It would help sustain world trade growth and the occasionally tottering structure of the international financial system. It would greatly assist the resolution of the $100bn savings and loan debacle. It might well justify the present, or even higher, levels of stock prices on Wall Street.

It would also allow US industry and labour to carry on with the slow process of regaining

In 1990, economists expect a positive, albeit slower, growth rate in the US

world-class competitiveness and productivity without suffering too much of the concomitant pain.

Last but not least, continuation of the great expansion of the 1980s would seem to be a necessary condition for President Bush's Republican Party colleagues in Congress to have any chance of recreating the conservative political coalition which dominated US politics so totally between President Reagan's election in 1980 and the Republicans' loss of their Senate majority in 1986.

Not only will the national election of November 1990 give the Republicans an opportunity to regain some of the Congressional seats they lost in 1988. It will cast its shadow across the US political scene until the end of the century, because US constituency boundaries are redrawn quite remorselessly to their own parties' advantage by the state legislators who happen to be elected at the beginning of each decade.

Politically, therefore, even a mild a recession, if it were still going on at the time of the 1990 election, could turn President Bush into the lamest duck to inhabit the White House since Herbert Hoover. Given the canniness of President Bush's political adviseres, as well as the dominance of the Republican loyalists on the Federal Reserve Board, policymakers will certainly try to avoid any such outcome.

And if the consensus of US economic forecasters is right, they should not have too much trouble in succeeding. According to Blue Chip Economic Indicators, a group which regularly surveys America's top business economists, the consensus forecast for 1989 overwhelmingly supports the "soft landing" devoutly hoped for by Wall Street and assiduously worked for by Mr Alan Greenspan, the chairman of the Federal Reserve Board.

Specifically, the Blue Chip survey published in mid-June forecasts a 2.7 per cent growth rate for this year as a whole, with individual estimates ranging from 1.0 to 3.5 per cent.

In 1990, the economists also expect a positive, albeit slower growth rate of 1.5 per cent.

Even in 1990, only three out of 52 forecasters expect an actual fall in output, with all the rest predicting growth of anywhere from 0.2 to 3.3 per cent.

However, a quarterly breakdown of the economy's behaviour does show a marked deceleration from, the second half of this year onwards – with the consensus growth rate slowing from 4.3 per cent in the first quarter of 1989 to 2.1 per cent in the current (second) quarter, 1.3 per cent in the third and 1.1 per cent in the last three months of the year.

From then on the economy is expected to remain mired in a very low 1 to 1.5 per cent growth range until the last few months of 1990, when it resumes a somewhat faster 2.3 per cent growth rate.

Back in the 1960s and early 1970s, this kind of economic performance used to be termed a "growth recession" - a state in which the economy is still expanding, but not quite fast enough to absorb all of the labour and industrial capacity becoming available in the markets.

During a growth recession, the unemployment rate increases slightly, capacity utilisation declines and inflationary pressures tend to abate somewhat.

For the Bush Administration and the financial markets, this kind of scenario would certainly be an ideal outcome. It would probably allow interest rates to decline a little further, or at least justify the run-up in bond prices that has already occurred in anticipation of the economic slowdown.

The Blue Chip economists forecast a one per cent decline in short-term rates and a 3/4 per cent decline in long rates between the first quarter of 1989 and the end of 1990.

It might lead to a further modest decline in the US trade deficit, as America's domestic growth rate lagged further behind the rest of the world, while the dollar weakened somewhat in response to lower US interest rates.

The Blue Chip economists suggest a trade improvement of about $15bn annually this year and a further $10bn in 1990.

Alternatively, if the dollar maintained its recent stubborn strength, a slowdown in the economy would at least prevent the trade deficit deteriorating too much further.

The most important benefit of an economic slowdown would be to help tame accelerating inflation. According to the Blue Chip consensus, the year on year consumer price change should peak at 5.3 per cent in the fourth quarter of this year and then decline gently to 4.7 per cent by the end of 1990.

Unfortunately, however, it is in its all-important anti-inflationary effects that the "soft landing" scenario arouses most scepticism, for at least three reasons.

The problem is partly that many economists do not believe deep down in the slowdown suggested by the consensus forecasts.

With capital spending plans still strong, consumer sentiment surveys still very favourable and interest rates already coming down, there are plenty of analysts willing to argue that the economic weakening seen in the last few months, and now faithfully projected forward by the econometric models will soon be reversed. The corollary to this would be considerably higher inflation next year than the consensus forecasts.

Secondly, there are doubts about how quickly inflation would respond even if the kind of very mild slowdown now forecast were to occur. Past experience suggests a significant rise in unemployment may be required to reduce inflation, but the consensus forecast is for an almost imperceptible increase in unemployment, from 5.2 per cent at present to 5.7 per cent at the end of next year.

Thirdly and most fundamentally, there is the question of what happens after 1990.

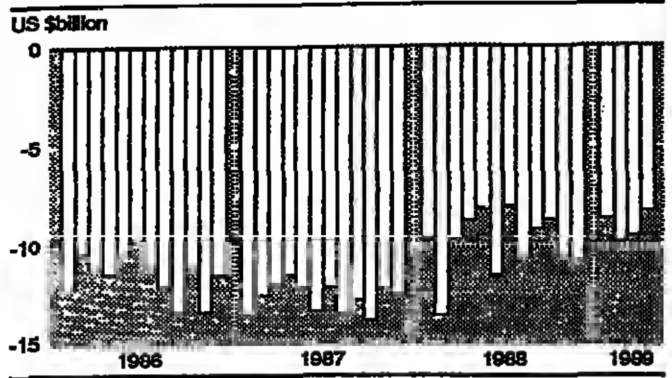
Even if the "soft landing" is achieved as currently predicted, inflation would still be running at 4-3/4 per cent at the end of the 18-month long slowdown. From that point on, the economy would be accelerating again, presumably pulling inflation along with it.

This time, however, the climbing inflation would start from a higher base than it did in 1987. The same could also be said of the trade imbalance and even the government's budget deficit.

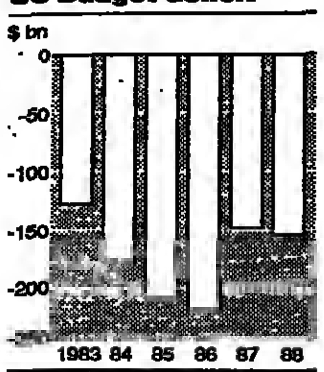
Far from "landing" into a new period of stability, therefore, the US economy would face all of its current problems at the end of 1990, but in an intensified form.

For policy-makers this would seem a small price to pay for the luxury of pushing the country's economic problems a few years forward. In Washington these days, a problem postponed is every bit as good as a problem solved. The central economic question of the next 18 months will not be what the policy-makers try to do, but whether the markets let them get away with it.

US Trade balance

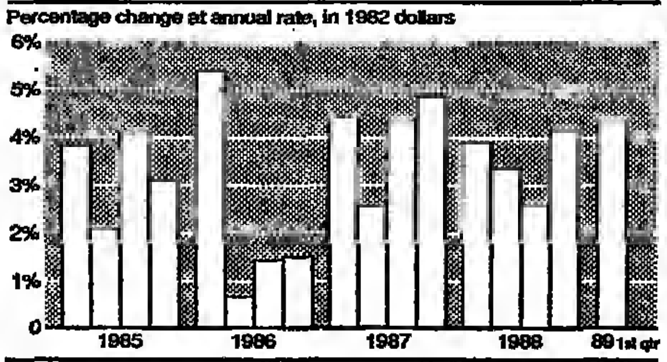


US Budget deficit



Gross National Product

Percentage change at annual rate, in 1982 dollars



Ashley Ashwood

The US business expansion which began in 1982 is likely to survive at least until its seventh anniversary, say analysts. Above: part of the foreign exchange section at Salomon Brothers, New York.

BANKING REGULATION

Arguments intensify in the regulatory minefield

Regulation of banks' access to the securities industry is the most visible and persistent strand of debate, says Janet Bush.

PROGRESS towards dismantling the barriers in the US between commercial and investment banks remains incremental and, if anything, the whole area of banking regulation has become even more complicated over the last year.

There have been two major developments. The first is that banks seem increasingly likely to get the access to the securities industry that they want and need in order to compete with their European and Japanese counterparts in the global market.

Although a few obstacles remain to full-scale underwriting of debt and equity, banks have come a long way in the last year despite the failure to pass legislation during the last Congress.

The second development has been a shift of emphasis in the world of banking regulation from the limited, although crucial, issue of breaking down the 1933 Glass Steagall Act which separates commercial and investment banking domestically to the more far-reaching question of harmonising regulation globally.

Even as the Senate and House Banking Committees fought over details of their proposed legislation to give banks expanded powers throughout last year, leading representatives of both the banking and securities industries argued that the laws as they were written would be out of date before they were even passed.

The key to their argument was that regulation could no longer be seen purely in a US light because both banks and securities houses faced ever more intense international competition from overseas counterparts who did not operate under constraints imposed more than 50 years ago in a vastly different world.

At home, US commercial banks are still grappling with a regulatory minefield but there is light on the horizon. As soon as Congress broke up late last October, killing legislative proposals for the repeal of Glass Steagall, five leading commercial banks with aspirations to be among the world's leading integrated financial institutions – Citibank, J.P. Morgan, Chase Manhattan, Bankers Trust and Security Pacific – applied to the Federal Reserve for the expanded powers they had lobbied so hard for.

The Fed, which has consistently stood for increased powers for banks, has become their main champion.

In January, the Fed approved the banks' applications to underwrite corporate debt and delayed for one year applications to underwrite corporate equity. The Fed had already authorised banks to underwrite municipal revenue bonds, commercial paper, consumer-receivable backed securities and certain mortgage-backed securities.

The Fed's approval was contingent on each bank filing papers proving they met capital adequacy requirements. The banks duly filed the necessary papers and final authorisation is expected imminently.

The Securities Industry Association, which represents the interests of securities houses, filed suit against the Fed's decision but did not ask for an injunction preventing banks from starting business in the new areas. The SIA has been largely unsuccessful in fighting expanded powers and was denied a request for a quick hearing on the Fed's decision.

Mr Rachel Robbins, managing director and general counsel to J.P. Morgan Securities, said that the banks would be free to go ahead with underwriting corporate debt once the Fed has given final approval.

Another legal battle being fought by banks is in Manhattan's second circuit appeals court. In December last year, Judge Kevin Duffy overturned an earlier decision by Mr Robert Clarke, US Comptroller of the Currency, another leading proponent of more bank powers, and barred Security Pacific from underwriting an issue of mortgage-backed securities off its own balance sheet.

In a highly controversial ruling, Judge Duffy argued that the mortgage-backed issue violated Glass Steagall. The Comptroller had argued that banks should be able to sell asset-backed securities because it was no different from selling a loan portfolio to another bank.

Banks were particularly infuriated by Judge Duffy's decision because they are free to underwrite asset-backed issues through overseas affiliates. Security Pacific's lawyers, who are confident that Judge Duffy's ruling will be overturned perhaps as early as the summer, argued that it is absurd that banks are not allowed to underwrite an issue of assets generated by their own business but must forgo the fees to an investment bank.

Another major strand of regulation is the current rule under Section 20 of the Glass Steagall Act which allows "bank holding companies to underwrite and deal in ineligible securities on a principally engaged theory."

So far, principally engaged has been interpreted as up to five per cent of gross revenues. There are high hopes within the banking industry that the Fed will raise this to 10 per cent, also as early as this summer.

Regional banks, which under the 5 per cent rule would find it difficult to compete in underwriting, have been lobbying the Fed to raise the limit to allow them into the securities business.

International regulation – both of US banks overseas and foreign banks in the US – is becoming increasingly complex.

The Fed is also expected to review its Regulation K which limits the underwriting and trading positions of US commercial banks overseas.

This, according to bankers, is on a slow track partly because the Fed is currently grappling with another thorny problem at home as overseas banks applying to underwrite corporate debt in the US under Section 20.

Some of these banks have argued in their applications that the same firewalls required of US banks which are designed to separate a bank and its securities subsidiary and so provide a buffer between the bank, which is federally insured, from any losses in that subsidiary.

Because foreign banks do not have federally insured deposits, they object to the stringent and often costly requirements of firewalls.

Barclays Bank of Britain, for example, is seeking to exempt its branches from the securities firewalls by allowing them to lend to its securities subsidiary Barclays de Zoete Wedd.

At the same time, US banks are worried that the Fed may impose similar firewalls on their overseas activities as on their domestic securities business.

They argue, with some justification that this imposition would put them at a competitive disadvantage with their foreign counterparts who do not face such structural complexities.

The Fed confirmed in March that this idea was being actively discussed within the central bank although there appears to be disagreement among officials about the idea.

Regulation of banks' access to the securities industry is the most visible and persistent strand of debate. However, there are many other issues such as whether banks should be able to sell insurance and real estate, the whole question of inter-state banking, which is gradually breaking down, and the entire federal deposit insurance system. These are busy times for regulators.

A mood of caution prevails

Continued from page 1

pects for US financial services could well be better than many of the pessimists on Wall Street now suppose.

In the long-term, American companies have one unique advantage in the competition for market share in the worldwide financial industry – a business that is bound to be one of the great international growth industries of the future. This key advantage is quite simply that financial markets around the world are steadily being restructured in emulation of the American model.

As Europe, Japan and even the developing countries liberalise their financial industries, the market experience embodied in US banks, securities house, investment institutions and merger boutiques, will become steadily more valuable.

With luck and good management, this fund of skill and experience should more than offset the relative financial weakness of many US financial institutions in a global battle with much more strongly capitalised Japanese and European giants which occasionally suggests a David and Goliath struggle.

The astronomical prices paid last year by Japanese financial institutions for minority stakes in newly-formed merger boutiques are the most the obvious illustration of this phenomenon.

Less widely publicised, but more pervasive, there is the increasing prominence of the top Wall Street houses in European mergers and acquisition business, as well as in securities trading in London.

There are the growing signs that Wall Street leveraged buy-out specialists are seeking opportunities to expand their operations to the UK. Even the integration of Europe after 1992 is likely to benefit at least a handful of the biggest US commercial banking institutions, which probably have better than any of the European-based banks in each of the Community's individual markets.

Eventually, therefore, the global trend towards freer and more innovative capital markets – whether in banking and insurance services or currency and equity index futures – offers American financial service companies an opportunity for which they are uniquely equipped.

Before they reach this profitable Eldorado, however, American companies will probably have to pass through several more years of danger, hardship and demoralising toil. The challenge for their managements as they navigate the dangerous shoals that lie immediately ahead will be to hold the rudder of operating discipline with an iron grip, while keeping their eyes fixed enthusiastically on the distant course to the prosperous future.

Janet Bush on prospects for the bond market

Three points of view

THE US Treasury bond market battled gamely throughout a full year of successive monetary tightenings by the US Federal Reserve as it marshalled its ammunition against the inflationary pressures built up over nearly seven years of economic expansion.

The Fed started tightening in March, 1988, and finished in around February of this year. After much vociferous debate within the policy-making Federal Open Market Committee, the Fed reversed the very last of these gradualist tightening moves on June 5 and 6, allowing the Fed Funds rate to fall by a mere quarter-point.

That slightest of easings sent long bond yields plummetting to within a whisker of 8 per cent, a level not seen since before the Fed began its monetary squeeze.

In the space of a few, short, fun-filled days for bond traders, the damage to interest rate levels and bond prices wrought by a year of tightening was undone.

The question now facing the bond market and economists is whether the enthusiasm of bond traders will undo the anti-inflationary work done by the Fed, re-ignite the economy and put renewed upward pressure on inflation which can be particularly pernicious at the tail-end of an economic expansion when industrial capacity and labour markets are tight.

This all depends on the view of how fast and how significantly the economy is contracting, how dangerous or benign the build-up in inflation has been and what the official response to developments in the economy will be.

The plunge in long-dated Treasury bond yields to nearly 8 per cent in early June reflected a hardening and broadening consensus that the US economy was headed for a soft landing with slower, sustainable growth and controlled inflation.

That scenario, coupled with the added boost of political uncertainty overseas from the devastating events in China to the waves of scandal hitting Japanese government ministers, outgoing and incoming, attracted heavy new investment from overseas into the bond market and the dollar.

It was difficult to sift through the evidence and decide whether the dollar was being bought to invest in bonds or whether bonds were being bought because the dollar was so strong. Economists started coming out with forecasts of 7½ per cent long bond yields within a few months and the bond market appeared to have decisively broken the three-year bear market which began in mid-1986.

After a heady two weeks or so at the beginning of June, the optimistic picture became slightly muddied. On June 15, the dollar soared to its highest level against the Japanese yen for more than two years and its peak against the D-Mark since November, 1986.

However, in the same day, the dollar then plunged by Y6 and DM6 and the yield on the long bond jumped to 8.28 per cent, back within the trading range which had prevailed since the Fed started tightening.

Opinions depend greatly on how US economic prospects are viewed

There are still distinctly opposing camps who see very different developments in the economy over the next year or so and therefore various fates for the bond market. They can perhaps be divided into three points of view.

■ The first, which has become increasingly dominant, is the soft landing camp. They believe inflationary pressures peaked in the first quarter and that the Fed will engineer a slowing in growth while avoiding a recession. This scenario is very good for bonds.

■ The second camp predicts that the US could achieve lower, sustainable growth but that inflation would continue to rise, albeit at a slow rate. This would, over time, erode the value of bonds but there should be no dramatic selling. This camp believes that the current Administration and the Fed will at all costs avoid a recession which would severely impair budget reduction and threaten further chaos to the thrift and banking industries.

■ The third camp – the most pessimistic - believes that inflationary pressures are still considerable and that the recent plunge in interest rates coupled with a small easing by the Fed will produce an acceleration in growth in the second half of the year, followed by a recession in 1990 as the Fed finally moves to extinguish rampant inflationary pressures.

This last view is well represented by Mr Eugene Sherman, economist at the Federal Home Loan Bank of New York, in an article entitled 'Financial markets have altered the economic outlook.'

He argues that the sharp rise in the dollar and fall in interest rates during the second quarter will give the economy renewed vigour and that the economy will expand at sustained growth rates of between 2.5 per cent and 3 per cent during the rest of 1989 and into 1990.

He believes that the strong dollar would serve as a partial constraint on inflation rates but that renewed economic demand in housing and consumer spending would counterbalance this benefit.

"While inflation may stabilise for several months near term, it is likely to accelerate again later in the year and into 1990 and will remain the major economic problem over the forecast horizon," Mr Sherman said. "What is really worrisome is that it will re-accelerate from a base of 5 per cent or more."

He predicts that by the fourth quarter of this year, the Fed will resume constraint in monetary policy to combat widening perceptions that inflation is getting out of hand.

Problems such as these would be exacerbated by any weakening of the dollar.

Mr David Hale, chief economist at Kemper Financial Services in Chicago, believes that, later this year, strong growth in foreign economies and therefore rises in interest rates overseas will weaken the dollar.

Even at long bond yields of 8.35 per cent – around the level reached after the mid-June sell-off – he says that "the bond market appears to be discounting so much good news about economic weakness and disinflation that it does not offer good value and could correct when it becomes more apparent to investors that the struggle to restrain inflation will require a sustained period of high short-term interest rates."

Tough questions are being asked on Wall Street, says **Anatole Kaletsky**

Puzzle on rising equity prices

AS US equity prices approached the all-time highs they briefly touched in that never-to-be-forgotten rally of August 1987, there were three obvious questions ringing around Wall Street.

■ The first was whether the market could possibly gather up enough courage in the coming months to mount a successful challenge to its record of 2722.42 on the Dow Jones Industrial Average.

■ The second was how much further prices might ultimately rise once the previous peak was surmounted.

■ The third question was less enthusiastic but perhaps more urgent – was the return of bull market stock prices and peak valuation levels setting investors up for another Black Monday?

Equities recently have been offering investors reasonable values

All of these questions will be answered eloquently enough with the benefit of hindsight, as they were in October 1987 when President Reagan provided the most perceptive, as well as the most concise account of what happened on Black Monday.

"The market fell because it was too high," was his first and only direct comment on the crash.

However, since retrospective analyses like this are not much use to investors, analysts on Wall Street have been trying harder than usual to gauge the market's recent performance with the kind of objective measures which had been flashing clear warning signals to anyone who cared to pay attention two years ago.

In relation to the experience of 1987, there seems to be little left to gain and much to lose in the current level of stock prices. At its recent 1989 peak, the stockmarket was even closer to its all-time high than might have been suggested by a cursory glance at the Dow Jones Industrial Average.

The Dow, which reached 2,519 in the second week of June would still have 8.1 per cent to go to hit its 1987 record.

But this widely followed indicator substantially understated the strength of the entire market, largely because of the heavy weighting which it accorded International Business Machines, one of Wall Street's most notorious underperformers since the crash.

The Standard & Poors 500, which is the best single indicator of America's large capitalisation blue-chip stocks, was only 3 per cent below its all time high by mid-June. Meanwhile, the Nasdaq index of smaller companies came within one per cent of its record level and the American Stock Exchange Index actually exceeded its 1987 high in June.

There is, of course, no logical reason why stock prices should be constrained, even in the short-term, by their historical records. Nevertheless, considering what happened a few months after the market last approached these levels, it is hardly surprising that the bulls decided to take a pause in mid-June.

To many analysts' surprise, however, the market pause gave no signs of turning into an all-out retreat or even a significant correction. One reason for the market's underlying resilience was probably the extraordinary strength of the dollar and the US bond market.

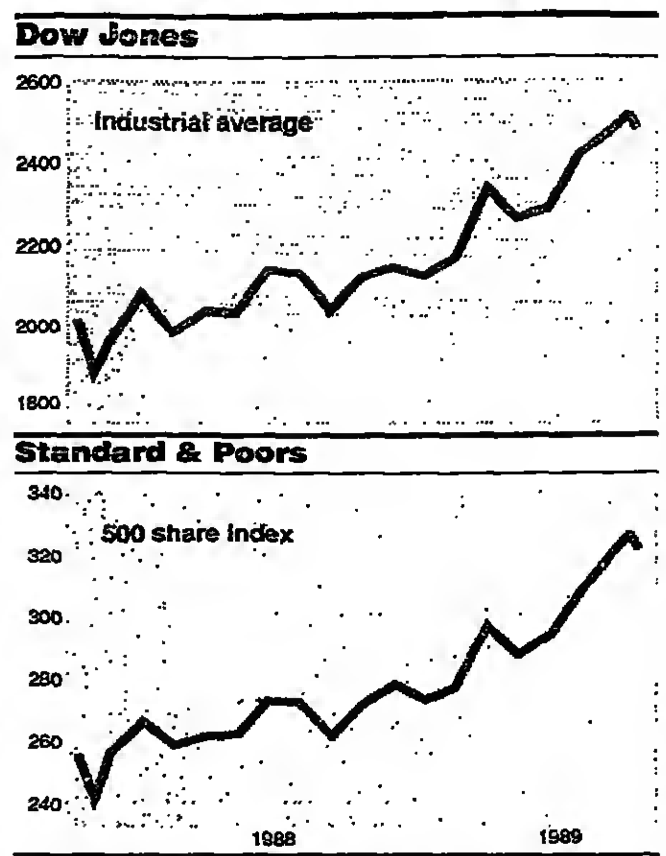
These factors seemed to attract big inflows of foreign money to Wall Street this summer and provided some domestic investors the chance to take profits and re-adjust their portfolios without unsettling the market as a whole.

The most spectacular example of the underlying demand for US securities, as well as of the portfolio liquidation by some major domestic investors, was Mr Carl Icahn's disposal of his 17 per cent stake in Texaco shares, worth $2bn.

Mr Icahn was able to sell his entire 42m shares in a single block trade (by far the largest in Wall Street's history) without any serious adverse impact on the stock's price.

But the simple weight of money argument has not been the main source of reassurance for Wall Street in pushing stock prices to within a hair's breadth of their 1987 records.

For even the sceptics admit that stock prices today stand on much firmer ground than they did then in terms of fundamental value measures such as price-earnings ratios and dividend yields. The reason is simply that corporate profits and dividends have risen enormously during the two years since equities last traded at their present levels.



According to the latest survey by the Institutional Brokers Estimates System of Lynch Jones & Ryan, Wall Street analysts currently put the P/E ratio on the Dow Jones Industrials at 10.1 to 10.8.

These are not very ambitious valuation levels by historical standards. The P/Es achieved by the stocks in the DJIA, for instance, have averaged 13.6 over the 50 year period since 1938. More significantly, the estimated P/E on the Dow at the market peak in August 1987 was about 16.

On the face of it, these figures are extremely bullish. For if the analysts are right in their estimates of 1989 earnings (and, after all, the year is already nearly half-way through), the Dow could rise by an astonishing 50 to 60 per cent above its current level before it reached the peak valuations of August 1987.

Dividend yields, which tend to be much more stable than the P/E ratios, tell a consistent, if slightly less bullish, story. The average dividend yield of 3.6 per cent on the Dow at present compares with a low of 2.8 per cent at the 1987 market peak.

There have been big inflows of foreign money into Wall Street this summer

Thus, even without assuming any dividend increases, the Dow could rise 29 per cent, before its yield declined to the 1987 level.

Other, more detailed valuation measures, such as the ratios of prices to book value, prices to cash flow and prices to sales, all send a consistent message.

Equities at present are offering investors reasonable values, about in the middle of their long-run historic range. And in relation to all these fundamentals, stock prices today are at least 20 to 30 per cent below the unsustainable peaks they hit in 1987.

To put it another way, the standard statistical warning signals on stockmarket value, which were flashing bright red two years ago are now set on amber, at worst.

Why, then, is the stockmarket not soaring even above its 1987 highs? Unfortunately there are at least three serious caveats about the valuation measures.

Firstly, stockmarket prices are based not just on current corporate profits, but even more importantly on prospects for earnings in the years ahead.

At present, most analysts forecast that profits in 1990 will be even higher than in 1989, but an influential minority is starting to forecast declines. The IBES survey suggests earnings growth of between three and eight per cent for the companies in the S&P 500, but analysts at Drexel Burnham Lambert, for instance, project a 13 per cent fall. Even assuming that the bullish consensus forecasts are vindicated, the profits growth implied would be far more modest than the 20 to 25 per cent compound rate achieved since 1987.

What this implies is that the present valuation levels need to be far more modest than they were two years ago, since they appear to reflect a cyclical peak in corporate profits.

It is perhaps more instructive, therefore, to compare the values represented by today's share prices not with 1987, but with the three stockmarket peaks before that, in 1981, 1977 and 1973. In those three years the P/Es on the Dow Jones Industrials stood at 8.2, 10.1 and 10.7 respectively. The dividend yields came to 6.0, 4.2 and 3.8 per cent.

In each of those years, therefore, the stockmarket seemed to offer even better value than it does today. Yet stock prices fell by an average of 31 per cent in the three bear markets which followed those cyclical peaks.

Slowdown in the mergers and acquisitions business

Looking more sedate

MERGERS AND ACQUISITIONS VALUED OVER $1bn

Target	Bidder	Value $bn	Status
Warner Communications	Time	13.0	Pending
Kraft	Philip Morris	13.1	Completed
Time Inc	Paramount Communications	10.7	Pending
Lin Broadcasting	McCaw Cellular	6.5	Pending
Sterling Drug	Eastman Kodak	5.1	Completed
Lucky Stores	American Stores	2.6	Completed
Tenneco's Gulf of Mexico O&G	Chevron	2.6	Completed
Southern California Edison	San Diego G & E	2.6	Completed
Borg Warner Chemical	GE	2.3	Completed
San Diego Elec. & Gas	Southern Calif. Edison	2.3	Completed
Hartford National	Shawmut National	1.8	Completed
IMS International	Dun & Bradstreet	1.1	Completed
SCI Holdings	Telecommunications & Comcast	1.6	Completed
TW Services	Coniston Partners	1.6	Pending
United Artists Communications	United Cable Television	1.6	Completed
Primerica	Commercial Credit Corp.	1.5	Completed
Irving Bank	Bank of New York	1.3	Completed
Cain Chemical	Occidental Petroleum	1.2	Completed
E-II Holdings	American Brands	1.1	Completed
Fidelcor	First Fidelity	1.1	Completed
Norstar	Fleet Financial	1.1	Completed

Research: Rivka Nachoma, FT, New York

MERGERS and acquisitions looked last year like the next great mother lode which Wall Street was mining for profits. As deal-volume boomed, scores of firms poured people and money into the business to try to offset flagging performances in securities trading and underwriting.

When RJR Nabisco was put into play late last October, the record-shattering deal looked set to drive the M&A business to new heights. Nothing was more dazzling than the nugget investment bankers dug from the $25bn leveraged buy-out. They pocketed $1bn in advisory fees.

Politicians in Congress and state capitals expressed alarm and spoke grandly of writing new laws to curb the frenzied activity. But by the time the eye-popping purchase was completed some eight months later, the M&A business was looking more sedate, its pickings slimmer and its future less threatened by politicians.

The slowdown is attributed mostly to changing economic and market conditions. Interest rates rose through the winter making it more expensive to finance deals, stock prices rose sharply making targets more expensive, and the economy cooled making it less likely buyers could profit from the deals before the next recession came.

Interest rates have fallen sharply in the past month as the Federal Reserve has eased monetary policy a notch. But no big pick-up in M&A business is expected. Players are chasing more, smaller deals and looking increasingly to cross-border transactions to help them keep up their volumes.

For advisors bemoaning the dearth of megadeals, the complex $10bn fight between Time, Warner and Paramount has come just in the nick of time. The three parties have lined up between them close to 30 investment banks, law firms and other advisors.

Some advisors have even hired their own advisors. Senior Time and Warner executives said to be are carrying a key list of between 80 and 100 names and phone numbers of advisors' personnel.

All this has spiced up the business a little from its bland (by recent comparisons) first quarter. In that period, 630 deals worth $46.6bn were completed compared with 736, worth $42.3bn in the first quarter of 1988, according to figures compiled by IDD Information Services.

Although the quarter's volume held up on a year-on-year basis, the latest period benefited from the surge of deals in the pipeline at the turn of the year.

The second quarter figures are likely to look disappointing if the recently completed RJR Nabisco deal is excluded. More crucially, it seems highly unlikely business will accelerate later this year as it did last.

For all of last year, a total of 3,637 transactions worth a record $311.4bn were completed compared with 3,565 worth $219.5bn in 1987, according to IDD's figures.

Wall Street firms pocketed last year $1.28bn in advisory fees (excluding the RJR Nabisco fees) compared with $801.6bn a year earlier.

The advisory game broke down last year into four leagues. Goldman Sachs was in a class of its own, advising on $93.4bn of deals.

Next came First Boston, Shearson Lehman and Morgan Stanley at $74bn-$78bn each.

The third group was Drexel Burnham Lambert, Wasserstein Perella, Lazard Freres, Salomon Brothers and Merrill Lynch at $25bn-$39bn a piece. And fourth: everyone else. (With more than one advisor on each side of a deal, there is a lot of double counting in the IDD figures.)

Bandying around such numbers in front of the public and politicians was like waving a red flag in front of a bull. It seemed every Senate and House committee or subcommittee called hearings, sounded-off about the perils of takeovers and drew up rambling lists of prospective legislative action.

The new Bush Administration reacted more coolly, suggesting that not much needed doing because the merger boom would subside on its own accord.

Its judgment has proved correct. Quieter takeover markets have cooled passions in Congress. A deluge of information has also helped.

After two seasons of hearings in the winter, "the politicians are confused. They now know they have a very complex problem on their hands," said Mr Jeffrey Schaefer, director of research for the Securities Industry Association.

Quieter takeover markets have cooled passions in Congress, says Roderick Oram

"The hearings have given them a more balanced view about the restructuring of corporate America. The lack of consensus among politicians also shows them there are no easy legislative solutions," he added.

In fact, it looks as though Washington is unlikely to pass any laws having a significant impact on takeovers. The SIA, which generally opposes such legislation, is worried though that Congress might speed through a tax revenue measure linked to takeovers as a last minute effort to pass a fiscal 1990 federal government budget.

It might, for example, limit for income tax purposes the deduction of interest expenses incurred in debt financing of takeovers. But such a law would simply reflect a need to raise revenues rather than "a reasoned decision that this is an aspect of takeovers that needs to be addressed."

With Washington bogged down in the complexities of the issues, a lot of focus for legislative action has swung back to state capitals. Companies have found it much easier to win some protection from takeovers from politicians in their home states.

New York State, for example, recently passed a law that prohibited interest deduction in state corporate tax calculations if a leveraged buyout increased the target company's debt to equity ratio by 100 per cent and its debt to assets ratio by 60 per cent.

"The law will probably not, in all practicality have much affect," Mr Schaefer said. "But from a policy point of view it is bad legislation which sends the wrong message to other states and Washington."

It fails to deal with real problems such as the need to cut out the double taxation of dividends, once on the profits earned to fund the dividends and once when the dividends are in the hands of investors. Ironing out such anomalies would reduce the attractiveness of debt financing.

But in the meantime, many people on Wall Street say they are happy that the political stalemate is keeping the M&A playing field as open as possible. It is one factor which should help them try to drum up business to justify the big commitment of people and capital they have made to the activity in recent years.

Jamie Buchan examines the prospects for LBOs

Whatever happened to the leveraged buy-out?

AT THE end of last year, everybody on Wall Street and in Washington was talking about leveraged buy-outs. A deal to take RJR Nabisco private had just broken every financial record in the book and $30bn in equity money was sloshing up and down Wall Street, looking for a repeat. A furious debate was raging about what leveraged buy-outs meant for the economy: were they hamstringing American business with debt – or creating new breed of committed manager-owners?

So far this year, there has been precisely one leveraged buy-out of any size or significance: the $1.2bn buy-out, financed by Salomon Brothers, of the Grand Union supermarket chain.

Clayton & Dubilier, the specialist buy-out firm, is attempting to assemble a $1.8bn buy-out of the troubled Beverly Hills hospital management group, American Medical International. Other deals may surface over the summer. But it looks like 1989 will not begin to match the $36.8bn in deals (including RJR) arranged in the last quarter of 1988.

Wall Street has found all sorts of reasons for the slowdown. Of these, probably the least important is the drive in Congress to restrict leveraged buy-outs. At one point, no fewer than half a dozen Congressional committees were holding or planning to hold hearings on LBOs.

In a leveraged buy-out, a company is bought with debt which is then paid back through the enterprise's profits or by selling off its businesses. Opponents say that the high levels of debt risk imperilling the company's future simply to reward a handful of cynical managers and Wall Street money men.

Much of the debate concerned restricting the tax advantages enjoyed by debt financing – which is tax deductible – as opposed to equity financing, which is not.

But the rise of the junk bond has so blurred the line between equity and debt that the debate has become too complex and obscure for many Congressmen. Wall Street contributed to the obfuscation and Mr Nicholas Brady, the Treasury Secretary, has given no clear direction either way: though temperamentally distrustful of leveraged buy-outs, he seems reluctant to tinker with market mechanisms.

A more potent influence has been the Federal Reserve. In the months between the RJR Nabisco deal in early December and the first week of June, the Fed pushed up short-term interest rates by one and a half percentage points, sharply increasing the cost of borrowing money.

The rise in interest rates co-incided, rather unusually, with a rise in stock-market values, with the Dow Jones Industrial Average up around 15 per cent in six months. Takeover financiers were squeezed at both ends, with both finance and potential targets becoming daily more expensive. Without a takeover market to stimulate defensive LBOs, business was bound to be thin.

RJR itself was a formidable road-block to deals. LBO financiers are unanimous in saying that the buy-out of the tobacco and food group by Kohlberg Kravis Roberts, the market leader, is one of the most soundly constructed buy-outs ever assembled. But the sheer size of the deal, at $25bn, threatened to squeeze Wall Street's traditional sources of bank finance and subordinated debt till they squeaked.

Definite answers will have to wait regarding the virtues and vices of leveraged buy-outs

As it turned out, the sale by Drexel Burnham Lambert and Merrill Lynch of the key $4bn in junk bonds in mid-May caught the crest of a rally in the credit markets and was little short of a triumph.

The issue was instantly raised to the category of "blue-chip junk", attracting many purchasers who have shied away from the run of junk bonds.

The removal of the RJR obstacle and the decline in interest rates since then should open the way for further takeovers and leveraged buy-outs. But as Mr Gerry Angulo of First Capital Partners, a Wall Street money manager, suggests that current equity values – with the Dow around 2,500 – are quite a deterrent.

"If the Dow goes to 3,000, all LBOs will dry up," he says.

Like many other Wall Street people who have looked closely at the LBO market, Mr Angulo believes that prime candidates of medium size have been picked over in the past five years and there is little value left.

"That leaves only the very large companies and the very small," he says.

But another giant LBO of the RJR type would surely set the Congressional mill turning in Washington while it is hard to attract competent managers and deal people into small transactions.

American Medical, for example, looks as if it will prove tough sledding even for a firm as experienced as Clayton & Dubilier. The company has had trouble adjusting to increased competition in health care and earned only $18.6m on revenues of $1.3bn in the first half of its 1989 fiscal year.

According to sums done by Ms Mimi Willard, of Shearson Lehman Hutton, American Medical could probably finance from its own cash flow a buy-out of $1.8bn – but with only $12m in annual profits to spare. As Mr Martin Dubilier, chairman of Clayton & Dubilier, himself said: "It's a tough situation."

Meanwhile, the firm may have to pay more than $1.8bn if a serious rival offer emerges.

As for the great question over the virtues and vices of LBOs, definitive answers will have to wait. Eight years of economic growth and relatively low interest rates have allowed even the shakiest LBOs to survive and prosper: only a couple of deals have gone awry.

In a full-scale recession, markets will contract and junk bond buyers will discover there is no equity cushion between them and missed interest payments.

What happens then, is anybody's guess.

LEVERAGED BUY-OUTS
Some of the largest, 1988-89

COMPANY	PRICE $m	STATUS
RJR NABISCO	25000.0	Completed
KROGER	3916.3	Completed
MOBIL'S MONTGOMERY WARD UNIT	3800.0	Completed
HOSPITAL CORP. OF AMERICA'S 104 FACILITIES	3600.0	Completed
FORT HOWARD PAPER	3570.0	Completed
HOSPITAL CORPORATION OF AMERICA	3300.0	Completed
AMERICAN MEDICAL INTERNATIONAL	3000.0	Pending
AMERICAN STANDARD	2459.0	Completed
ALLEGIS	2400.0	Completed
KRAFT'S DURACELL UNIT	1800.0	Completed
J.P.STEVENS	1216.3	Completed
STOP N' SHOP	1213.2	Completed
IC INDUSTRIES' PNEUMO ABEX	1200.0	Completed
OHIO MATTRESS	980.0	Completed
KENDALL	960.0	Completed
CNW	950.0	Pending
INSILCO	950.0	Completed
UNIROYAL GOODRICH	950.0	Completed
PAYLESS CASHWAYS	907.0	Completed
AFG	883.4	Completed
AMFAC	800.0	Completed
BEST PRODUCTS	685.0	Completed
COLT INDUSTRIES	660.0	Completed
LEAR SIEGLER SEATING CORP	500.0	Completed
WICKES	478.0	Completed
SPECIALTY EQUIPMENT	350.0	Completed
WHEREHOUSE ENTERTAINMENT	190.0	Completed
FARM FRESH INC	181.0	Completed
MUNFORD	72.6	Completed

Compiled by Rivka Nachoma, FT, New York

The junk bond market

Enigmatic securities

LIKE the hero of some swashbuckling movie, the junk bond market lives from scrape to scrape, one moment in the most deadly peril, the next free, impudent and without a care.

The market has exactly doubled in size in the last two years and some $200bn in original-issue high-yielding corporate bonds now nestles in the portfolios of professional investors and mutual funds. But junk bonds remain enigmatic securities, hard to define and even harder to predict.

Junk bonds, which in their modern form are high-interest bonds issued by new, heavily indebted or otherwise risky corporations, have passed through three bad patches since Drexel Burnham Lambert popularised them in the first half of the 1980s.

In each case, the price of the junk bonds fell so far that their interest yields were 5 percentage points or more than the yields of bonds which carry no risk of default, such as Treasury issues. Each time, the market has recovered.

The first and most severe challenge for the market came in November, 1986, when news broke on Wall Street that Ivan Boesky, the celebrated speculator in corporate takeovers, had settled charges brought by the Securities and Exchange Commission and was supplying evidence to a government inquiry into Wall Street fraud.

Much of the recent flood of junk bond issues had been for takeovers and the market was terrified. Implausible as it now sounds, investors feared that the Government would roll up Drexel Burnham's network of junk-bond takeover artists and besiege the firm itself.

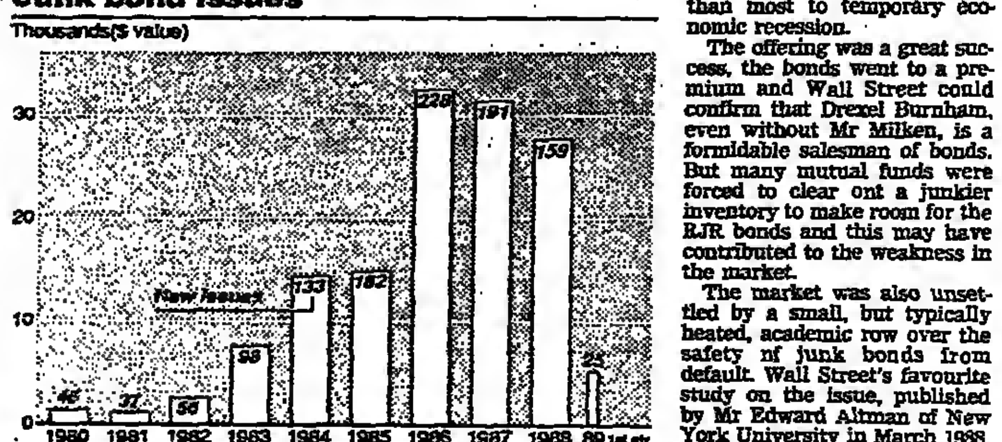
Might not even Drexel Burnham itself be so embarrassed that it would not be able to maintain liquid markets in its own issues?

Junk bond prices took until the next spring to recover. Other Wall Street firms merely moved in to exploit Drexel Burnham's embarrassment, chipping away at its once overwhelming share of new junk bond issues and capturing some of the big underwriting fees.

At bottom, the Boesky crisis was a matter of questionable people, not questionable securities: the big takeovers and leveraged buy-outs financed by Drexel Burnham during this period have survived quite comfortably.

The firm itself eventually made its own humiliating settlement with the SEC and criminal prosecutors. It was forced to suspend its junk-bond mastermind, Mr Michael Milken. The market for new issues has not regained the heights of 1986, when $32.4bn in bonds was underwritten, but it remains busy with $31.1bn in new underwritings in 1987 and $27.8bn in 1988.

Junk bond issues
Thousands($ value)



Source: IDD Information Services

Anxiety unsettled the market in April and May.

The second great challenge was the Stock Market Crash of 1987. Junk bonds have always somewhat resembled equity: junk bond investors are looking for the risks and rewards that go with ownership, rather than the security of principal and interest that a conventional lender seeks.

When stocks collapsed, it was inevitable that junk bonds would fall with them, till the average issue was yielding something over 5.5 percentage points more than its Treasury equivalent. There seemed a real threat that the Crash would usher in a recession, which would bankrupt the most optimistic junk-financed takeovers and leveraged buy-outs.

This threat did not materialise and by the spring of last year, yield differentials were once again back around 4 percentage points.

But the threat of recession continues to haunt the junk bond market. Investors are uncomfortably aware that the new crop of junk bonds has not been tested at every stage of the economic cycle. The stock market is banking on a couple of quarters of slower economic growth to squeeze inflation – though not, it is hoped, company profits – but even this 'soft landing' might prove too hard for many highly leveraged junk-bond companies.

It was anxiety of this sort that sent the market through its third rocky period in April and May of this year. The bonds of Allied Stores and Federated Department Stores, businesses thought particularly vulnerable to a recessionary fall in consumer spending, were yielding the best part of 20 per cent. The average yield premium to Treasuries was just short of 5 per cent.

Admittedly, this spring saw a heavy calendar of offerings, culminating in a $4bn issue of bonds for the leveraged buy-out of RJR Nabisco, which Drexel Burnham Lambert and Merrill Lynch started selling in mid-May. As a purveyor of tobacco and food products, RJR is a business more resistant than most to temporary economic recession.

The offering was a great success, the bonds went to a premium and Wall Street could confirm that Drexel Burnham, even without Mr Milken, is a formidable salesman of bonds. But many mutual funds were forced to clear out a junkier inventory to make room for the RJR bonds and this may have contributed to the weakness in the market.

The market was also unsettled by a small, but typically heated, academic row over the safety of junk bonds from default. Wall Street's favourite study on the issue, published by Mr Edward Altman of New York University in March 1988, argued that the average default rate in the years between 1978 and 1987 were just 1.84 per cent. But a new study by Mr Paul Asquith of Harvard Business School, published in May, suggested that 34 per cent of the junk bonds issued 10 years ago had by now defaulted.

The results, in fact, may not be as contradictory as they sound. The junk bond market has grown so fast that it is quite plausible that only 2 per cent of all outstanding bonds default in any given year: that is still $4bn worth of debt.

But junk bonds, like other debt securities, are more likely to default as time goes on. The Harvard study found that while 34 per cent of the bonds issued in 1977 and 1978 had defaulted by the beginning of last November, the percentages were in the low 20s per cent for bonds issued from 1979 to 1983 and well under 10 per cent for 1984 to 1986.

Meanwhile, the high interest-rate premium, once compounded over the years, will make up for quite a high default rate.

The Harvard group do raise an interesting question. So far, they say, the "true default rate" on junk bonds has been obscured by the explosive growth of the market.

What if the market peaked in 1986 and will continue to stagnate? Eventually, junk bond portfolios will cease to be dominated by recent issues with low default rates. It will be an interesting time for the investor.

Jamie Buchan

Wall Street firms' traditional lines of business continue to deteriorate, says **Roderick Oram**

Hard slog for brokerage houses

IT HAS been a long time since Wall Street firms have had to work so hard for a living. Their traditional lines of business continue to deteriorate while newer ones are failing to fulfil their initial promise.

As a result, firms are having to take more of the same medicine they help *dish out to others* such as mergers, acquisitions, restructurings, staff and budget cuts.

The US securities industry's pre-tax profits are forecast to fall sharply this year from the $2.5bn reported last year. Although the 1988 figure was double the severely Crash-depressed levels of 1987, it was only half the bonanza year of 1986.

"It is the worst recession we've had in a decade," says one disconsolate senior Wall Street executive.

On a more optimistic note, Japanese firms are failing to

The US securities industry's pre-tax profits are forecast to fall sharply this year from the $2.5bn reported last year

make major in-roads into Wall Street's main activities, forcing them to rethink the scale and direction of their US expansion strategies. For a while longer, home turf remains an advantage to US firms.

Trading and underwriting activities are proving the hardest slogs for Wall Street. Even the stock and bond market rallies of this year have failed to restore to full health these businesses which suffered badly in the October 1987 Crash.

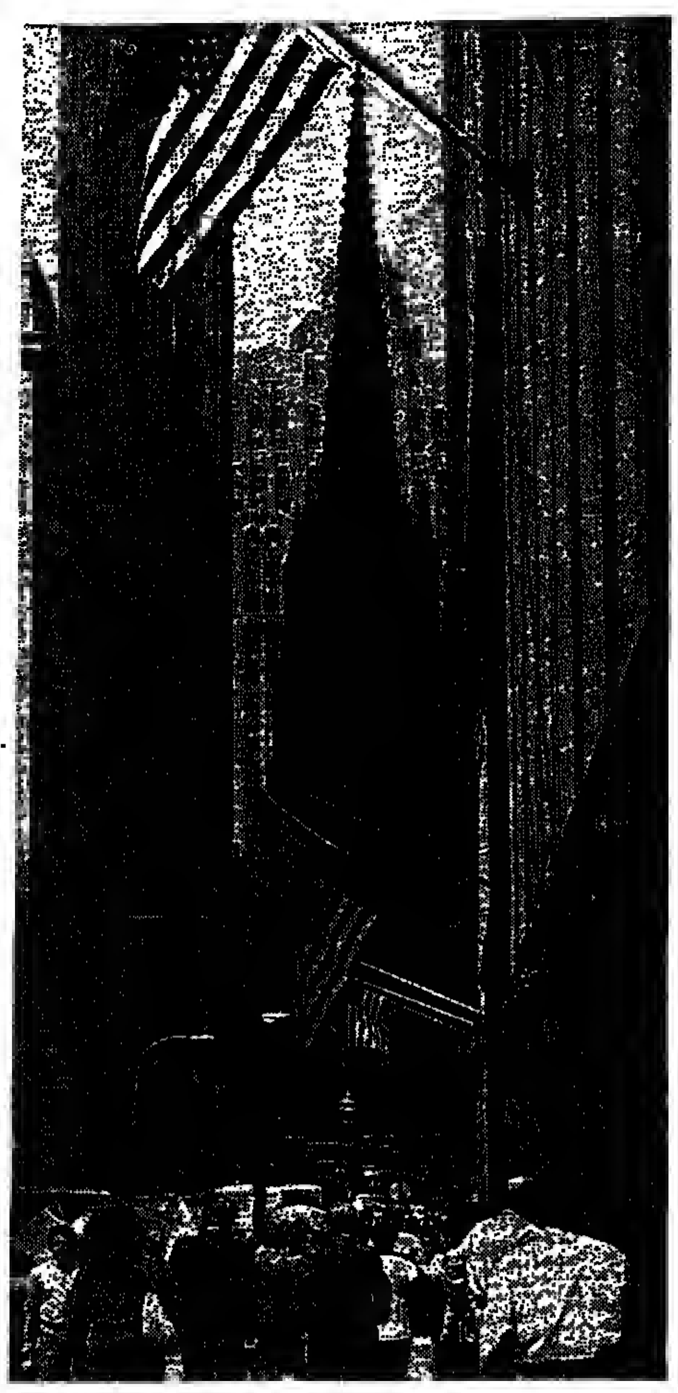
The bleakest corner of all is retail brokerage. As a group, the largest full-line retail houses such as Merrill Lynch and Shearson Lehman Hutton lost money on retail customers last year.

It was unsurprising since their revenues from commissions and mutual fund sales fell 33 per cent and 31 per cent respectively from year-earlier levels, according to the Securities Industry Association. New York Stock Exchange volume was off by more than a third.

The regional brokerage firms fared a little better. They *remained profitable, though* they turned in their second worst year for profits this decade. Their revenues from commissions and mutual fund sales fell by 27 and 51 per cent respectively.

National and regional firms are trying a number of tacks to improve their retail businesses in the absence of renewed enthusiasm small investors. Morgan Stanley, for example, has shifted its less active institutional investor to its retail department where they are charged more for less service.

But life also remains hard in institutional departments. Investors are trading less actively, partly because of uncertainty about the economic and market outlook but also because they have changed their investment objectives, argues Mr Sam Liss, Salomon Brothers' securities industry analyst, in a recent major report.



Less business means more competition which has driven down commissions on big institutional trades to around 3 cents a share – barely a break-even level for the firms – from around 8 cents at the height of the bull market two years ago.

Its no better over in bond departments. The revenues of primary dealers in government bonds fell to $500m last year from a record $2bn in 1986, prompting a pullout by Lloyds Bank of the UK, for example.

While some firms want to move out of the retail business, others handily want to move in. Prudential-Bache Securities, for example, recently agreed to buy Thomson-McKinnon, a medium-sized, old line firm, for an estimated $60m. The deal will increase the number of Pru- Bache brokers by about a third, letting it vie for third place with Dean Witter Reynolds after the giants of the business, Merrill LYnch and Shearson Hutton Lehman.

Pru-Bache is willing to take a contrarian view and put *money into the retail business*, said Mr George Ball, its chairman. It believes the right retail strategies can generate profits.

Another buyer is Mr Sandy Weill, the architect of Shearson Lehman's rise in the 1970s and early 1980s. He returned to Wall Street last autumn when Commercial Credit, the company he part owns, bought the assets and took the name of Primerica, the financial services conglomerate which includes Smith Barney, Harris Upham.

This year he has added to Smith Barney's retail network many choice branch offices shed by Drexel Burnham Lambert.

Underwriting is also in the doldrums. Although the industry managed to underwrite $70bn of debt and equity in the first quarter of this year, about $1.5bn more than a year earlier, only a hefty increase in junk bond issues helped save the day.

Wall Street firms are having to take more of the medicine they help give to others, such as mergers and cost-cuts.

In stocks, for example, there were only 39 initial public offerings worth $3.1bn in the period, the first time since 1982 than less than 50 companies went public in a quarter.

National and regional firms are trying a number of tacks to improve their retail business

In municipal bonds, issue fees have fallen to $5 per $1,000 bond from $20 in 1985.

With most traditional trading activities reduced essentially to commodity-style businesses, Wall Street firms have accelerated their drive into businesses generating fees or giving the firms the chance to trade on their own account.

One shift, for example, is to fee-based services such as asset management. Most of the largest firms are reporting large increases in the volume of money they manage for investors and the resulting fee revenue. Such fees rose 14 per cent in the first quarter at Merrill Lynch, for example.

Far more important is the rush into mergers and acquisitions, discussed in an accompanying article. Who would have dreamt a few years ago, for example, that a mid-ranked firm such as Donaldson Lufkin Jenrette would be named as a leading advisor for a big takeover, as it has been in the case of NWA, the US air carrier.

But aside from a few huge deals aside, volume has dropped sharply since the turn of the year, forcing firms to scramble after more but much smaller transactions. This, in turn, has left fewer opportunities for firms to build merchant banking businesses by investing their own capital in deals.

Pioneers are well placed. Morgan Stanley, for example, has an ownership interest in some 40 companies it has helped take private. It does not

Investors are trading less actively, partly because of uncertainty about the economic and market outlook

plan to keep these investments for ever, so selling them off piecemeal will make a welcome contribution to its profits for some time to come.

Others coming later to merchant banking, particularly as the US economy draws ever closer to its next recession, are putting their capital at greater risk.

Should the economic downturn prove severe, merchant banking could be the next Wall Street horror story, particularly if the scramble for profits intensifies.

Squeezing out more costs is one partial solution to poor profitability. The number of people employed in the US securities industry dropped from around 260,000 to 240,000 shortly after the Crash. Employment costs have changed little, though, so another steep round of staff cuts, mostly in support staff, is expected soon.

"There's still too much excess baggage," says Mr Perrin Long, who follows the industry for Lipper Analytical Securities.

As Wall Street executives struggle to rebuild their firms' profitability, one harsh fact is never far from their minds. The securities' industry's pre-tax return on equity is now down in single digits from around 30 per cent in the middle of the decade and near 50 per cent at the beginning.

Many of the firms' industrial clients, in contrast, are cruising along at 20 plus per cent. Physician, heal thyself.

Specialist boutiques in investment banking

A superleague success story

THE RISE of Wasserstein Perella & Co, the investment bank, has been nothing short of remarkable.

In little more than a year since Mr Bruce Wasserstein and Mr Joseph Perella stomped out of First Boston, they have built one of the most dynamic advisory teams in the lucrative mergers and acquisitions business.

In 1988, their first year of business, Wasserstein and Perella and a staff of only 50 professionals ranked sixth above such seasoned giants as Merrill Lynch and Salomon Brothers, despite the fact that the company missed the first quarter.

In the first three months of this year, Wasserstein Perella had stormed up the rankings of top financial advisors in mergers and acquisitions to an impressive fifth place, advising on deals worth $7.8bn.

Above Wasserstein Perella on the rankings were Morgan Stanley with 30 deals, First Boston with 31 and Drexel Burnham Lambert with 20.

Wasserstein Perella's fourth place was won with only eight, very large deals which attest to this small team's ability to attract business from some of the biggest companies in America.

A noteworthy comparison can be made with fifth-place Shearson Lehman Hutton which did 30 deals which still only amounted to $7.6bn.

Wasserstein Perella started life in the superleague. The example of Bruce Wasserstein and Joseph Perella has been followed by numerous other leading talents in the M & A field who have, for numerous reasons, chosen to leave the large Wall Street securities houses and set up on their own.

One of the prime reasons was that, in the year after the October, 1987, stock market crash, commissions plunged and trading volume and therefore profits fell. The profit stream from these traditional activities began to be replaced by the fees earned from mergers and acquisitions advisory work.

Investment banks are increasingly using their own money to buy equity stakes in companies, sometimes controlling stakes. How far will they go in becoming corporate managers, asks Janet Bush

LEADING FINANCIAL ADVISORS - 1st quarter 1989

Advisor	Amount $m	Rank	% of total	% of deals	Rank	% of deals
MORGAN STANLEY	17,510.6	1	35.3	30	2	4.2
FIRST BOSTON	16,244.5	2	32.8	31	1	4.4
DREXEL BURNHAM LAMBERT	10,901.6	3	22.0	20	4	2.8
WASERSTEIN PERELLA	7,7671.0	4	15.7	8	8	1.1
SHEARSON LEHMAN HUTTON	7,616.0	5	15.4	30	2	4.2
KLEINWORT BENSON	6,073.4	6	12.2	2	25	0.3
S.G.WARBURG	5,757.0	7	11.6	1	34	0.1
J.R.MORGAN	5,695.8	8	11.5	4	15	0.6
MERRILL LYNCH	4,902.8	9	9.9	16	6	2.3
KIDDER PEABODY	3,669.3	10	7.5	9	7	1.3
SALOMON BROTHERS	3,382.4	11	6.8	7	12	1.0
LAZARD FRERES	2,172.4	12	4.4	8	8	1.1
GOLDMAN SACHS	2,080.1	13	4.2	8	8	1.1
DONALDSON LUFKIN	1,582.5	14	3.2	6	14	0.8
BEAR STEARNS	1,262.9	15	2.5	8	8	1.1
TOTAL	49,585.0					707

LEADING ACQUIRER ADVISORS - 1st quarter 1989

Advisor	Amount $m	Rank	% of total	% of deals	Rank	% of deals
MORGAN STANLEY	6,716.5	1	13.5	7	1	1.0
S.G.WARBURG	5,757.0	2	11.6	1	28	0.1
J.R.MORGAN	5,695.8	3	11.5	3	8	0.4
FIRST BOSTON	3,324.4	4	6.7	10	2	1.4
MERRILL LYNCH	2,053.6	5	4.1	7	4	1.0
WASSERSTEIN PERELLA	1,810.0	6	3.7	3	8	0.4
DREXEL BURNHAM LAMBERT	1,764.1	7	3.6	8	3	1.1
SALOMON BROTHERS	1,681.3	8	3.4	3	8	0.4
LAZARD FRERES	1,374.0	9	2.8	4	6	0.6
SHEARSON LEHMAN HUTTON	1,182.0	10	2.4	11	1	1.6
KIDDER PEABODY	1,011.7	11	2.0	2	18	0.3
BEAR STEARNS	628.8	12	1.3	3	8	0.4
GOLDMAN SACHS	519.0	13	1.0	3	8	0.4
BANQUE NATIONALE DE PARIS	420.8	14	0.8	1	25	0.1
GIBBONS GREEN	365.7	15	0.7	2	18	0.3
TOTAL	49,585.0		707			707

LEADING TARGET ADVISORS - 1st quarter 1989

Advisor	Amount $m	Rank	% of total	% of deals	Rank	% of deals
FIRST BOSTON	12,820.1	1	26.1	21	2	3.0
MORGAN STANLEY	10,794.1	2	21.8	23	1	3.3
REXEL BURNHAM LAMBERT	9,131.4	3	18.4	12	4	1.7
SHEARSON LEHMAN HUTTON	6,434.0	4	13.0	19	3	2.7
WASSERSTEIN PERELLA	5,957.0	5	12.0	5	8	0.7
KLEINWORT BENSON	5,757.0	6	11.8	1	23	0.1
MERRILL LYNCH	2,849.2	7	5.7	9	6	1.3
KIDDER PEABODY	2,687.5	8	5.4	7	7	1.0
SALOMON BROTHERS	1701.1	9	3.4	4	11	0.6
GOLDMAN SACHS	1,571.1	10	3.2	5	8	0.7
ONALDSON LUFKIN	1,495.0	11	3.0	3	14	0.4
WHEAT FIRST	1,139.6	12	2.3	1	23	0.1
LAZARD FRERES	796.4	13	1.6	4	11	0.6
PRUDENTIAL-BACHE	864.0	14	1.3	11	5	1.6
BEAR STEARNS	633.1	15	1.3	5	8	0.7
TOTAL	49,585.0			707		

Bruce Wasserstein and Joseph Perella were reputedly responsible for almost all First Boston's profit in the year before they jumped ship, a story replicated in many other firms where M & A fees had to make up for shortfalls in highly expensive, people and technology intensive trading rooms.

Why should the M & A department cover for deficiencies in other areas, the defectors argued? And why shouldn't the rich pickings from M & A work go to the people who won the business?

Another oft-cited reason for leaving the large firms is that they have become too bureaucratic for the fast-moving world of takeovers which requires quick decisions and tends to be peopled by highly individual talents.

Another motivation for leaving strikes at the very heart of what many believe is wrong with the oligopoly of huge, full-service securities houses on Wall Street: that "they have forgotten how to serve their customers."

Investors (and independent money managers) argue that some large securities firms will browbeat their clients into buying the in-house mutual fund – which may significantly under-perform others on the market, but which generates in-house brokers nice fees.

Suspicions are rampant throughout the investment community that the large Wall Street firms will execute orders for their own book before those of their clients – so-called "front-running."

In the M & A sphere, independent investment bankers charge that the enormous pressure – particularly since the Crash – on investment banking departments to rack up fees means that some are reckless about what takeovers they suggest to their corporate clients and the prices set on the deals – many of which involve enormous, potentially crippling amounts of debt.

The very large fees they earn from underwriting and distributing junk bonds, used to finance most takeovers, can cloud their advisory judgement, they argue.

It would be naive to suggest that investment banking boutiques do not face the same competitive pressures and do not have the same thirst for fees. However, many of those who left the large firms appear to espouse a more benign philosophy about takeovers.

Mr Peter Goodson, formerly head of mergers and acquisitions at Kidder, Peabody, moved to buy-out specialists Clayton & Dubilier, earlier this year. He particularly wanted the chance to work with Clayton & Dubilier because of its philosophy of a long-term managerial commitment to the companies it bought out.

The company has a practice of putting in managers and turning companies around, a practice alien to many in the large securities houses whose priority is the fee earned at the time of the deal.

Lodestar, an investment banking boutique backed by a 25 per cent stake owned by Yamaichi, has a $250m investment fund called Interlink which is committed to investing in friendly takeovers. Its two founders are Mr Ken Miller and Mr Tull Gearreald, formerly heads of M & A and corporate finance at Merrill Lynch. They say the Interlink Fund will be used to build toe-hold stakes in companies up to 20 per cent. Only with the company's agreement would the stake be raised any further.

Lodestar is one of three boutiques backed by Japanese money. Blackstone is backed by a 20 per cent investment by Nikko and Wasserstein Perella sold a 20 per cent stake to Nomura.

As part of the deal with their Japanese backers, each boutique is training Japanese executives in US M & A techniques. While each firm has the advantage of a hot line to Japanese investors interested in investing in buy-out funds and Japanese companies interested in making acquisitions in the US, in the longer-term they may be creating their future competition in M & A.

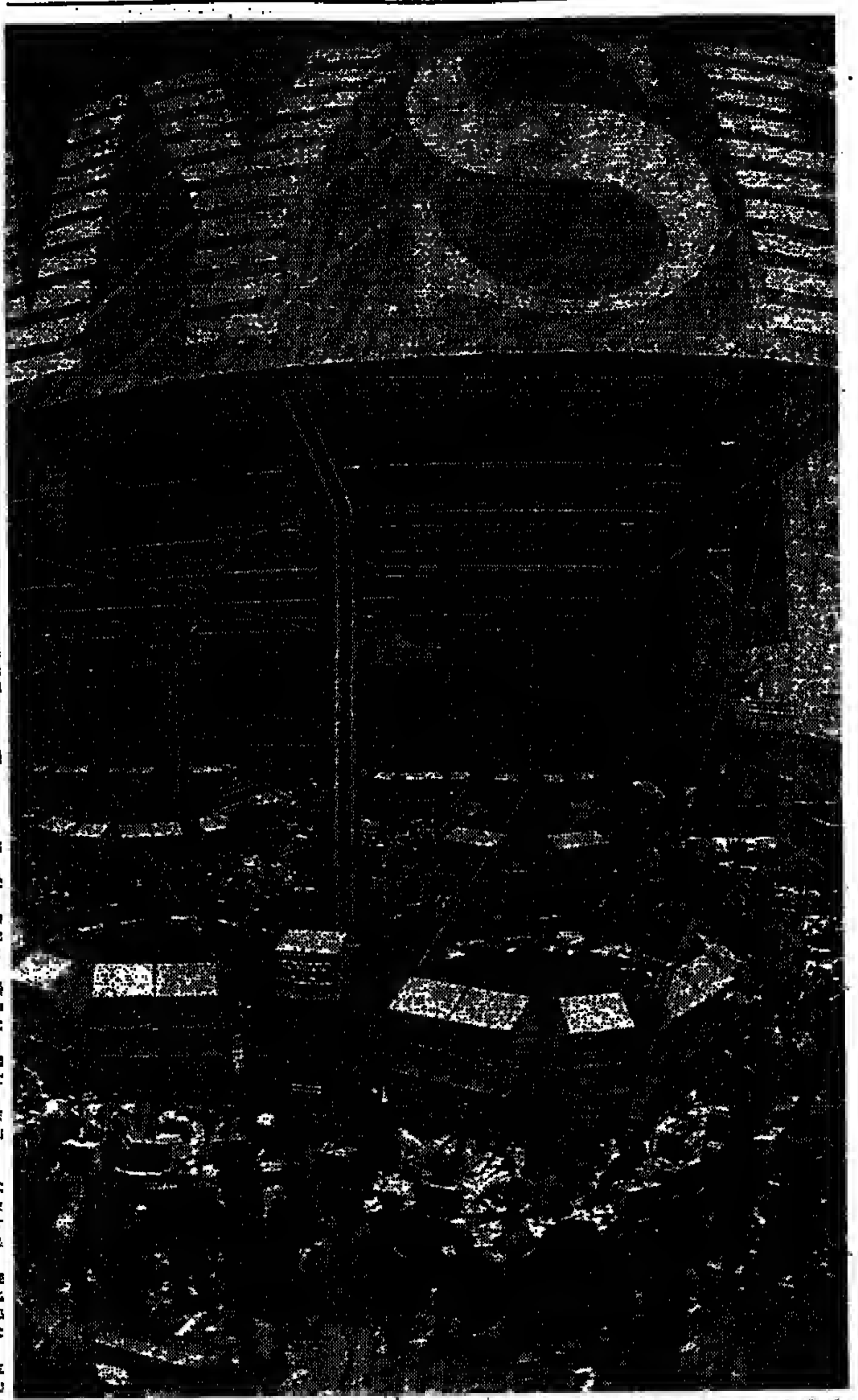
There are other interesting questions for the future. Investment banks are increasingly using their own money to buy equity stakes in companies, sometimes controlling stakes. How far will they go in becoming corporate managers?

Will boutiques stick with earning advisory fees and investing money in taking principal stakes or will the lure of fees for distributing junk bonds become too much of a temptation?

This was the question Wall Street asked when Wasserstein Perella hired two junk bond traders and two bond salesmen from Salomon Brothers in January. They argued that if Wasserstein Perella started distributing junk bonds, they may have to make a market in the bonds they placed.

What then would be the substantive difference between a boutique such as Wasserstein Perella and the full-service investment banking and securities firm it left behind?

Puzzle on Wall Street: how far will the boutiques go?



On the New York Stock Exchange, money centre bank stocks have been the strongest single industry group during the 12 months up to the first quarter of this year. In the past year, US banks have generated massive profits, while keeping asset growth under strict control.

Anatole Kaletsky explains why prospects may not be as rosy as they seem

Banks bask in Wall St glamour

UNLIKELY as it may seem, commercial banking has turned into an glamour industry, at least from the perspective of investors on Wall Street. During the 12 months up to the first quarter of 1989, the money centre bank stocks have been the strongest single industry group on the New York Stock Exchange.

The regional bank stocks have not performed quite as impressively, but even their shares have appreciated this year by about 10 per cent relative to the Standard & Poors 500, extending a two-year stint of strong performance.

The stock market's message is loud and clear. For the first time in many years, the US commercial banking businesses seem to be healthy and prepared to face the future.

Many reasons have been put forward by stock market analysts and bankers themselves for their industry's unaccustomed glamour status, but the most important can be summarised in four words: profits, capital, freedom and Brady.

In the past 12 months, the US banks have generated massive profits, while keeping asset growth under strict control. They have rebuilt the capital bases which were so painfully depleted by the 1987 Third World loan loss provisions.

They have continued to win, most of the battles in tha long-running war for regulatory freedoms. And, last by not least, they have been offered, in the shape of the Brady Plan on Third World debt, the first serious proposals to find a way to end the financial nightmare that has been haunting their industry for seven years.

In these four respects there have been genuine and significant improvements in the US banks' operating environment. Yet there are also darker sides to each of these improvements which suggest that prospects for the commercial banking industry could well continue to be problematic for years ahead.

The profits announced recently by US commercial banks – $7.3bn in the first quarter of 1989 for the 13,001 banks monitored by the Federal Deposit Insurance Corporation – have established new records, while in 1988 as a whole bank profitability rebounded strongly from the Third World-related losses of 1987.

TOP US BANKS EARNINGS - 1st quarter 1989

Advisor	Assets $bn	Net Earnings	Earnings Per share	Net Charge-offs	Provision for loan loss	Reserve for loan losses
Citicorp	210.7	529	1.52	379	358	4148
Chase	100.2	132	1.27	159	150	2730
J.P. Morgan	98.897	180	0.96	0	10	1487
Bankamerica Corporation	96.6	275	1.38	27	110	3616
Security Pacific Corp.	82.3	179.3	1.54	93.2	11.3	1159.6
Chemical Bank	74	117.9	1.49	79.5	90.7	2082
Manufacturers Hanover	69.8	103	1.84	108	99	234
Bankers Trust	61.5	164.3	2.02	11.4	35	1338
First Interstate Bancorp	56.7	132.2	2.81	153.2	135.6	1179
First Chicago	45.1	124.7	1.85	74.0	50	1292
PNC Financial Corp	42.136	123.6	1.29	14.0	36.397	531.8
Bank of New England	32.6	42.3	0.60	49.5	62.9	338.5

Compiled by Alyssa Goldberg

The banks' capital positions have also improved substantially. To many analysts' surprise, all of the major banks, including aven pravionsly weak institutions like BankAmerica, Manufacturers Hanover, Continental and Mellon, have now reached the 4 per cent risk-adjnsted capital requirements that will come into effect in two years' time.

Meanwhile, the liberalisation of US banking law has continued apace. Despite Washington's failure last year to pass new legislation to supplant the anachronistic Glass-Steagall Act, it is clearly now only a matter of time before commercial banks win all the operating freedom they want to venture into the securities industry.

Barriers on inter-state bank mergers are also collapsing and by late 1990 at least 40 out of the 50 states, including all the most populous and economically important ones, will have created virtually free conditions for bank takeovers.

In theory, all these developments should create abundant opportunities for realising economies of scale, maintaining growtb and deploying excess capital.

In practice, however, there are a number of qualifications. The big jumps in earnings reported by the banks last year showed returns on assets jumping to 0.83 per cent from 0.6 per cent in 1986 and returns on equity advancing to 15.7 per cent to 11.4 per cent two years earlier.

But the quality of these earnings was questionable, since banks were pulling all the stops out to maximise reported profits in order to rebuild their capital structures after the massive hits they suffered from Third World loss provisions in 1987. As a result, much of last year's apparent prosperity came from tax loss carry-forwards, sales and leasebacks of office buildings, business disposals and other one-time items.

Nicholas Brady, US Treasury Secretary

In other words, the US banking system has rebuilt its profitability and its capital backing, but only at the cost of depleting the hidden reserves of assets which bankers have traditionally drawn on in times of economic difficulty and financial stress. This may seem fina from an accounting standpoint. It certainly fits well with regulators' current preference for greater transparency and Wall Street's insistent demands for managements to "maximise shareholder values."

The trouble is that US banks have sold their undervalued assets and raided their hidden reserves not to tide themselves over some economic crisis, but rather to sustain their earnings through the peak of the longest peacetime boom in history. Economically, the times ahead could well be worse, not better, than the ones the bankers have just left behind.

Any extended downturn in the US economy could leave many banks facing big new credit losses, not only from their LDC portfolios, but also in real estate, leveraged buyonts and consomer lending. Indeed, some Wall Street analysts were disconcerted in the first quarter, by increases in non-performing assets reported by several of the leading US banks, including Citicorp, Bank of New York, First interstate and Bank of New England.

While it is too early to suggest that the gradual improvement in credit quality which has accompanied the expansion of the economy is over, reports of real estate losses are spreading from the south-west to New England and Georgia. At the same time, the banks' credit standards seem to be getting more liberal, rather than stricter, as evidenced in Citicorp's much-vaunted "15-minute approval mortgages" for example.

For both the money centres and the regionals, any deterioration in the economic background would be particularly unwelcome in the next few years because competition in every banking market is likely to be intensifying.

Internationally, tbe fall of the dollar and the boom in Japanese asset values particularly have greatly boosted the capitalisations of foreign multinational banks in relation to their US rivals. The integration of the European market with the approach of 1992 will probably further strengtben the European giants and leave the US substantially under-represented in the international big bank league, witb two or three entrants at most.

Meanwhile at bome, interstate mergers will pose bigger challenges than ever for the majority of banks which have chosen to concentrate on serving the domestic markets. It is still far too early to predict the winners and losers in the competitive game between tbe super-regionals, which is only just beginning.

The stock market's initial bunch was that the domestic giants of the future would be built around the most successful and aggressive regional banks, sncb as Pittsbnrgb's PNC Financial, Cbarlotte's NCNB, San Francisco's Wells Fargo, Ohio's Banc One and Rhode Island's Fleet/Norstar.

Each of that group of five is currently worth more in the stock market than Chase Manhattan and much more than Chemical Bank or Manufacturers Hanover Trust. Thus far, they have shown themselves to be more nimble in their takeover tactics, better at satisfying tbeir retail and middle market customers and more efficient in terms of cost structures – not least because of the inbuilt advantages of locating beadquarters away from New York.

As tha competitive battle unfolds, however, it is still quite possible that some of the old-line money centres will make a comeback, as BankAmerica has done in California over the past year and a half. Only one thing is certain. Over the next decade there will be more victims than survivors among America's 13,000-odd commercial banks.

THIRD WORLD DEBT

The contradiction in the Brady plan

How the plan will work remains unclear, says Anatole Kaletsky

THE PLAN on Third World debt unveiled in March by Mr Nicholas Brady, the US Treasury Secretary, was welcomed rapturously by bank shareholders, even if it was received rather cautiously by bankers themselves.

The sharpest run-up in money centre bank stocks occurred within two weeks of Mr Brady's announcement, as Wall Street greeted the debt plan as the long-awaited deliverance from the most insidious and intractable banking problem of the post-war era.

For the first time since 1982, the official response to the Third World debt problem had moved on to the right track with Mr Brady's idea that banks would have to agree to voluntary debt reductions in exchange for policy reforms in debtor countries and credit enhancements from the multilateral aid institutions like the International Monetary Fund and World Bank.

In this broad sense, the financial world's enthusiasm for the Brady Plan was justifiable, but from the narrower perspective of money centre banks' profits, the jubilation was harder to understand.

How exactly the still-inchoate Brady Plan will work remains unclear. Today, after two months of negotiation with Mexico, the plan's first putative beneficiary, the gaps in financial expectations between the banks, the US Government and the debtor countries seem all but unbridgeable.

The fundamental contradiction in the plan is clear enough. Mr Brady wants voluntary agreements on debt forgiveness between the banks and the debtors and be stresses the use of market mechanisms in striking these deals.

Thus, Latin American governments have naturally interpreted his plan as a signal to seek debt forgiveness roughly commensurate with the secondary market discounts on their debts.

What this would means for the banks are write-offs ranging from around 40 per cent for Mexico to 80 per cent or more for Argentina. Unfortunately, while many of the smaller regional banks have been willing to sell out of their small Third World exposures at these prices, the money centre banks' position is very different.

It is hard to see why any competent money centre banker would voluntarily accept billion dollar losses on debts which have mostly continued to be serviced over the years, if not in a completely timely manner.

The Brady Plan seems most unlikely to work, therefore, without either coercion or strong financial incentives for the banks. And while bank shareholders are currently choosing to concentrate of the possibility of incentives, in the form of credit guarantees from the IMF and World Bank, these institutions' financial capacities are very limited.

To make matters worse, the US Treasury has recently curbed even the limited incentives of tax write-offs, by limiting the banks' ability to offset foreign losses against domestically generated income.

The main hope remaining is the Japanese government, which did indeed surprise the world in early June by committing almost $4bn in support of a three-year programme of IMF and World Bank assistance to Mexico.

Even such a relatively large sum, however, seems unlikely to match the expectations which have been raised among the debtor countries by the Brady Plan. As a result, something will almost inevitably have to give.

Ultimately, this is most likely to be the Plan's emphasis on voluntarism. Eventually, the banks may well be forced to offer large-scale debt forgiveness either by defaults among the debtor countries or by regulatory actions in the US.

The impact of such write-offs on the US banks' balance sheets and profits would still be enormous, despite the big reserves created in 1987.

A recent study by Keefe Bruyette & Woods, the prominent New York bank analysts, concluded, for example, that 40 per cent debt forgiveness would cost each of the big money centre banks $1.1bn to $2bn in additional provisions. Establishing such provisions would cut most of the banks' capital by the equivalent of 1 per cent of assets and leave them below the international agreed minimum requirements.

The US banks would face much greater difficulties than their foreign rivals in meeting the debt-reduction targets which Third World governments consider to be implicit in the Brady Plan. Even after the painfully reservicing they undertook in 1987, the US money centre banks still have between 93 per cent and 199 per cent of their equity exposed to countries which have rescheduled their debts.

For the big four British clearers, by contrast, the ratio of LDC exposure to equity ranges from 27 to 82 per cent, while in Japan the ratio is under 55 per cent for all the major banks, with only one exception. Bank of Tokyo's LDC exposure currently stood at 104 per cent of equity at the end of last year.

However, even these figures understate the relative difficulties that US banks face in coping with the Third World debt problem. Japanese and European banks have shown themselves quite willing to raise new equity through rights issues and public offerings in the world's stock markets.

US bankers have mostly refused to contemplate new equity issues which would dilute the earnings of their existing shareholders.

While the taboo against raising new capital persists, it will be difficult for US banks to meet the expectations which the Brady Plan has raised in Third World countries.

Commercial banks argue strongly for more access to the securities business

Banks seek to break down barriers

The five major banks see an underwriting capability as a crucial component of offering a full service to their international customers, says Janet Bush

US COMMERCIAL banks are pushing as hard as ever to break down current restrictions on underwriting corporate debt and equity, despite the fact that even well-established US securities houses are already struggling to make money in a highly competitive environment.

Banks put forward two powerful arguments for increased access to the securities business.

All banks, whatever their size, argue – with considerable justification – that securitisation is increasingly replacing traditional lending as the most popular way of raising capital for expansion. Banks want a slice of that business as traditional loans account for less and less of their profits.

The second major argument, which tends to be voiced more by the money centre banks which have a well-developed international business, is that they are falling behind formidable overseas competitors untrammelled by US regulations separating investment and commercial banking.

The large money centre banks believe that, to compete globally, they must develop into full-service financial houses offering both traditional banking and investment banking to their sophisticated international clientele.

Only a handful of US banks plan to be among the top tier of global financial institutions, an ambition which needs stupendous capital, experience and an ability to stand up to the harshest competition.

In the running at this stage are, at most, five commercial banks, the same ones which applied last October to the US Federal Reserve for powers to underwrite corporate bonds. They are four New York-based banks – Citicorp, J.P. Morgan, Bankers Trust and Chase Manhattan – and Security Pacific, based in California.

There are, of course, other major US banks who have a considerable presence overseas such as Chemical Bank and Manufacturers Hanover but they have a much more cautious, niche-oriented approach towards globalisation and the securities business.

The Fed has already conditionally approved the five bank applications to underwrite corporate bonds.

Final approval, which was contingent on the banks providing written evidence of compliance with new capital adequacy guidelines, was given to J.P.Morgan recently and is expected for other banks soon. The ability to underwrite equity offerings was delayed for a year. The five banks in question are geared up and ready to go in underwriting corporate bonds. Their main concern is not building market share in domestic markets such as municipal revenue bonds, commercial paper or mortgage-backed securities, all of which banks are already allowed to underwrite.

These are already highly competitive markets and nobody expects to make much money out of them. Indeed, some securities houses have already cut down on their presence in these markets because they have failed to make an adequate return on their investment. The five major banks see an underwriting capability as a crucial component of offering a full service to international customers.

The focus of their global ambitions is on the corporate finance area, the lucrative world of takeovers and mergers which both securities houses and banks are gunning to become major players.

There is one striking difference between the two. As things now stand, a commercial bank can act as financial advisor on a takeover proposal and arrange the financing but must still forgo the underwriting fee to a rival securities house, denying it a potentially substantial source of profits.

One example of the fruits of non-traditional banking business is the equity stake which Chase Manhattan took in Cain Chemical. When Cain was sold to Occidental Petroleum, Chase made a thumping net profit of $69m in the second quarter of 1988 at a time when the bank acknowledged that its net interest income had been "relatively flat."

Mr Richard Huber, head of Chase Manhattan's securities affiliate, notes that banks are already experts at selling on loans and argues that there is precious little difference between this technique and underwriting and distributing corporate bonds.

Mr John Olds, in charge of J.P. Morgan's investment banking business, believes that the bank must have full access to the huge and highly liquid US capital markets in order to serve its customers as adequately as its overseas competitors.

The current drive for bank deregulation is centred on expanded underwriting powers which will make the 1933 Glass Steagall Act separating commercial and investment banking almost obsolete.

However, the Bank Holding Act of 1956, which prevents non- banking companies from owning banks is also an obstructive piece of legislation. In mid-1987, the US Treasury said that it favoured the creation of five to 10 giant US banks which would compete with the largest banks in Japan, West Germany, Britain and France.

This thinking was endorsed by Mr Alan Greenspan, Fed Chairman, who said that ownership of banks by non-bank companies would provide multi-billion pools of investment capital for a banking industry which was "severely under-capitalised."

The banks have received no help from this direction and at the same time have had to meet more stringent international capital adequacy rules. It remains to be seen whether they will indeed be able to compete with the massive capital behind Japan's banks, for example.

Apart from the leading money centre banks, the banking industry is concerned with competing primarily in the domestic markets. On a more parochial level, they face stiff competition from brokers on every Main Street in America in selling securities products such as Certificates of Deposit.

Most banks are trying to build market share in their own regions in areas such as municipal finance, using their intimate knowledge of their local corporations and state and local governments. Some will specialise in financing school projects, others small or medium sized companies which fall outside the sphere of the large banks with their top flight, Fortune 500 client list.

One of the major areas of change in the banking industry is the advent of inter-state banking. Size is of the essence as much in the domestic banking arena as in the international banking market.

Progress towards inter-state banking has been step by step with different deadlines in the various states. A number of states already have bilateral inter-state banking – such as New Jersey with Pennsylvania and New York – and a wave of takeovers and mergers has created some large super-regional banks which are highly capitalised and dominant in their geographic areas.

Other banks have built up geographic reach by bidding for failed (and healthy) thrifts. This acquisition binge is likely to continue as more thrifts are embraced by the federal rescue plan.

Jamie Buchan examines prospects for the insurance industry

Warnings of a downturn

Profits will almost certainly fall this year, say analysts

ALL PROPERTY/CASUALTY LINES

Year	Net Premiums Written $000	NPW Growth %	Loss LAE Ratio%	Und. Expense Ratio %	Combined Before Divs. %	Ratio After Divs. %	Und. Gain or Loss after Divs. $000
Total Industry							
1984	117,743,957	9.2	88.1	28.0	118.1	117.9	(21,455,300)
1985	143,881,596	22.2	88.9	26.0	114.8	116.5	(24,786,949)
1986	176,136,050	22.4	81.4	25.2	106.6	107.9	(15,738,301)
1987	191,464,734	8.7	77.7	25.5	103.1	104.5	(9,575,709)
1988	198,900,000	3.9	78.0	26.0	104.0	105.4	(11,300,000)
5 Yrs	828,126,327	84.5	81.9	28.0	107.9	109.3	(82,851,259)

LAST YEAR was one of record profits and premiums in the mainstream US insurance business and property/casualty companies entered 1989 in their best financial health for years.

According to the Insurance Information Institute, the industry reported after-tax profits of $14.77bn last year on written premiums of $200.81bn. This was a second good year in a row.

In 1987, the industry booked earnings of $13.8bn on premiums of $193.69bn. A further $3.47bn in net profits in the first quarter of this year swelled the companies' combined policyholders' surplus – the equity in the industry – to $119.79bn on March 31.

For an industry that nearly bankrupted itself in the first half of the 1980s, laying out its precious capital in cut-throat competition for business, these should be welcome figures.

For diversified or multiline insurers, there is also good news from the troublesome group health business where the industry has had great difficulty pricing insurance to cover the rocketing cost of medical care in the US. A succession of rate increases of up to 50 per cent last year has cut losses from these lines.

But US insurers are as gloomy as farmers at harvest time. Executives from several companies have complained recently that property/casualty premium rates and profits are deteriorating. Some warn that the industry is running into a cyclical downturn in its commercial business just when political pressure on personal lines, notably automobile insurance, is becoming intolerable.

Others fear that Proposition 103, the California referendum that orders sharp cutbacks in auto premiums in America's largest insurance market, will be imitated by other states.

As if to add to the misery of underwriting insurance in the US, 19 states are seeking to build an anti-trust case against the industry for rate-fixing.

A hard look at the industry's finances shows that things really are getting worse. The industry also has few friends. In its scamper back from the brink in the 1984-86 period, the property/casualty companies raised premium rates so far and fast that they alienated the public, business people and regulators in half the states of the union.

COMBINED RATIO After policy holder dividend

YEAR	RATIO
1984	117.9
1985	118.5
1986	108.1
1987	104.5
1988	105.4

Source: Best's Review

But there is no reason to believe that the industry is heading into a competitive free-for-all as destructive as in the first half of the 1980s or that the political environment will get very much worse.

The stock market, for one, is all enthusiasm for insurers, bidding up blue-chip stocks such as American International Group and General Re at a rate faster than the average for industrial shares this year.

In the first quarter of this year, the property/casualty industry enjoyed a 7.2 per cent increase in after-tax profits, but this was entirely due to better results from investing preiums at temporarily high interest rates or in a fickle stock market.

Losses from the actual underwriting business rose to $3.65bn and the key measure of business conditions – the combined ratio of losses and expenses to premiums – worsened from 105.2 in the first quarter of 1988 to 106.5. This means that the industry lost $6.50 on every $100 of insurance it underwrote in the first quarter.

Most strikingly, premiums earned rose just 2.5 per cent in the first quarter which is much slower than the US economy as a whole.

More than anything else, this feeble increase shows that price-competition in commercial lines is already fierce. A.M.Best, the insurance rating and information organisation, says that commercial policies last year were renewed at rates only 1 per cent higher than in 1987, after increases of 7 per cent in 1987 and 29 per cent in 1986.

In general liability, a line of business that is notoriously hard to price because claims can surface years later, the industry actually saw premium income decline 5.8 per cent last year.

Profits will almost certainly fall this year, but the industry need not plunge into loss. For one thing, the profits of the last couple of years have not been great enough to attract too much new competition.

Though about $4bn in capital was added in 1987, only about one-quarter as much in new funds was available last year. Moreover, the property/casualty companies are finding that, since the great Tax Reform Act of 1986, they have to pay some federal taxes and this may prove something of a blessing.

In 1988, the industry charged $3.6bn in taxes and this money was effectively lost to the business of writing insurance.

The other benefit is in the reinsurance sector. Reinsurance spreads risk and therefore adds capacity.

At the turn of the 1980s, the lure of investment returns from high interest rates caused many small reinsurers to set up shop offshore. In the current business cycle, this simply has not happened.

Many of the most aggressive reinsurers went out of business in the collapse of the mid-1980s while the leading companies, led by General Re, are certainly not scrabbling to capture business from the primary market. In fact, General Re is displaying great discipline: it is writing less business and earning more money on it.

The political outlook is murky. Proposition 103 was duly upheld by the California Supreme Court but it is still unclear what effect it will have on the business.

Under the terms of the court ruling, the insurers will be permitted a reasonable rate of return in the auto business and some people think that profitability may eventually improve. What is increasingly clear is that the US public believes that the property/casualty industry is privileged, under-regulated and able to raise prices at will.

There are bills before Congress to repeal the antitrust exemptions, under the McCarran-Ferguson Act, which allows the industry to pool information on rates.

The Act is also at the heart of the state anti-trust suits. At the back of everybody's mind is the possibility of federal regulation, rather than the hodgepodge of different state regulations.

Some people in the industry think McCarran should be repealed. In its 1989 report, A.M. Best argues, with uncharacteristic heat, that reform could "dispel all the time and energy-consuming debate over an ill-understood exemption which has become a bugaboo to everyone on every side of any issue concerning insurance today."

At the very least, the industry must "do more than issue more and more information in a search for understanding. A two-way dialogue with both sides listening will be the answer. Otherwise, increased politicisation of insurance-related issues can bring more problems than the industry really needs."

Norma Cohen on the woes of the thrift industry

For some, a chance to profit

FOR the US Government and the taxpayers who support it, the woes of the thrift industry are a source of intense frustration and bitterness requiring huge expenditures of public money with very little to show for it.

But for investors willing to take a bet on an industry that may not be around or very much longer, the woes of the thrift industry offer an opportunity for profit.

Most recently, Salomon Inc and the Blackstone Group announced they were teaming-up to funnel investors' funds into ailing savings and loans. Old Stone Corp, a Rhode Island-based savings institution which is a partner to the venture, will manage the newly-acquired thrifts.

Also, Merrill Lynch and Prudential-Bache Securities have filed with the Securities and Exchange Commission to offer limited partnerships which will invest in weak or insolvent thrift institutions.

In addition to the pooled approach to thrift investment, major private investors, including the Robert Bass Group, financier Ronald Perelman – through his MacAndrews and Forbes Holdings Group – and Ranieri, Wilson and Co, an investment company, have acquired insolvent thrifts from federal regulators within the past few months.

Prospective investors are also expressing interest in the vast pool of so-called distressed properties which have come into the possession of insolvent thrifts as a result of defaults by borrowers.

Bankers believe that some investment opportunities to purchase properties, at a fraction of their value, may emerge as US banking authorities struggle to raise cash and cut the costs of managing assets.

So far, Trammell-Crow, the Dallas-based property developers and an independent Chicago-based fund, the Sam Zell fund, are among the few to offer a limited partnership to invest in such properties.

While investors have been quick to try to jump on the insolvent thrift bandwagon, the property bandwagon has been slower to get going.

For one thing, industry analysts say, some of the properties have little or no commercial value at all; and loans to finance the construction were a key reason why the thrift became insolvent in the first place.

"There are some buildings that you probably just ought to torpedo," said Mr Lowell Bryan, a partner at McKinsey and Co's North American banking and securities practice. Mr Bryan pointed out that the Federal Deposit Insurance Corp, in a review of assets at insolvent thrifts, found evidence of fraud to nearly 50 per cent of cases. Analysts tell stories of entire shopping malls built so far out in Texas cattle country that no one can find them – and of 20-story office blocks built in the Arizona desert.

Therefore, the consensus is that until economically viable properties can be isolated from the dud deals, investor interest these assets will be negligible.

But investors are clearly interested in insolvent institutions. This interest would clearly be limited were it not for the expectation that acquisitions will be underwritten in large part by the US Government and that investors will be required to put up relatively little of their own capital.

According to data compiled by Salomon Brothers, the Federal Savings and Loan Insurance Corporation, the thrift deposit insurance fund, provided about $50bn in assistance to ailing thrifts in 1988 alone. Meanwhile, the acquisitors of insolvent thrifts injected only $3.0bn in equity capital.

While some of the US aid is in the form of cash payments to depositors of failed thrifts, the bulk is the form of assistance to keep barely solvent institutions afloat until a merger can be effected with a healthy partner or a buyer can be found.

Several of thrift sales completed in late 1988 by the FSLIC came under criticism from Congressional leaders and others who charged that the tax and other benefits they offered to their buyers were far more than what was actually needed to induce sales and that the investors were required to put up too little of their own money.

Among other things, the buyers were given guarantees not only against credit risk of any performing asset in the portfolio but were given protection against interest rate risk on fixed-interest loans as well. Buyers in most cases were given the option in "put" any loan back to the government over a two in three-year period if the borrower fails to make payments.

"Many of the deals done in late 1988 may not be done any more," concludes Mr Dick Pratt, managing director at Merrill Lynch and a former chairman of the FDIC.

One recent ammendment to the current thrift rescue legislation would prohibit non-financial institutions which acquire insolvent thrifts from taking advantage of certain tax breaks while another would abolish waivers for meeting capital and other requirements.

The US plan to rescue the thrift industry is spelled out in legislation designed by President Bush which is now pending before Congress and which, under the best of circumstances, will cost hundreds of billions of dollars over the next few decades.

The US Congress' General Accounting Office has most recently estimated the cost of rescuing depositors at the nation's insolvent savings and loans institutions at about $258bn over the next 30 years.

Clearly, a portion of these funds will be used to sell assets to investors at sub-market rates. Under the bill, a newly-formed federal agency, the Resolution Trust Corporation (RTC), become the owner of the shells of hundreds of defunct thrifts. It will also own their assets, a portion of which are in the form of distressed properties whose owners cannot repay their loans.

Since proceeds from the sale of these assets will be earmarked to help pay debt service on some $50bn in bonds to be issued by an affiliate of the RTC, it is in the US government's interest to sell as many of them as it can.

Mr William Seidman, Chairman of the FDIC, has estimated that the RTC will be forced to handle some $400bn in assets from 700 to 800 insolvent savings and loans – suggesting that investors have a wide variety of purchases to chose from.

However, the terms under which assets will be disposed of are not spelled out clearly in the current legislation, complicating the picture for investors.

"Congress has made it clear that they don't want fire sales," says Mr Gerard Smith, managing director at Salomon Brothers in charge of mergers and acquisitions of financial institutions. However, Mr Smith, who is also in charge of Salomon's joint venture with Blackstone, says that some subsidies will have to be offered. "The immutable fact is that the private sector is not going to solve this problem at their own expense."

The Bush rescue plan, just passed by both houses of Congress, would reform the industry and provide financing to protect depositors. While its critics charge that the funds to be raised will fall far short of what is needed, it does contemplate spending $205bn between 1989 and 1999.

About $126bn of this is earmarked for thrifts that have already been declared insolvent and have fallen into the government's care.

It is the shells of these institutions that are likely to be the major focus of investors' attention. The plan calls for the establishment of the Resolution Trust Corp to hold insolvent institutions and the Resolution Funding Corporation which would issue an estimated $50bn in 30-year bonds to pay for the bailouts.

Additional funds will be raised from assessments on the thrift industry and from taxpayers, private analysts argue almost unanimously that the amount needed will be far more than that.

Mr Smith says that the Salomon/Blackstone thrift fund will be looking to purchase thrifts with a broad geographical distribution and average size of $1bn to $3bn in assets. The group expects to benefit from the reduction in overall capacity in the thrift industry which should fatten profit margins for those institutions which remain.

According to Mr Jonathan Gray, thrift industry analyst at Sanford C. Bernstein and Co, "The thrift industry has gone from a capacity glut to a capacity shortage. The consequences are that the bottom-third of the industry has either disappeared or will disappear over the next 18 months."

The result, he adds, could well translate into margins on home mortgages widening relative to yields on US Treasuries.

TOP 20 U.S. THRIFT INSTITUTIONS 1988 ($m)

Thrift	Deposits	Assets	Net Worth	Net worth as % of assets
HOME SAVINGS OF AMERICA,FA	29,569.8	40,917.4	2,430.2	5.94
GREAT WESTERN BANK, FSB	21,664.2	30,837.1	1,453.6	4.71
CALIFORNIA FEDERAL SAVINGS & LOAN ASSN	18,787.2	25,857.5	1,282.8	4.96
GLENDALE FEDERAl SAVINGS & LOAN ASSN	15,300.9	24,313.4	1,288.9	5.30
FIRST NATIONWIDE BANK, FSB	14,787.5	26,130.4	1,340.8	5.13
AMERICAN SAVINGS BANK	13,401.5	15,409.1	600.0	3.89
MERITOR SAVINGS BANK	12,209.3	17,112.0	1,122.5	6.54
HOME FEDERAL SAVINGS & LOAN ASSN OF SAN DIEGO	11,558.3	16,261.1	1,173.8	7.22
GREAT AMERICAN FIRST SAVINGS BANK	10,799.5	18,064.3	780.5	4.85
GOLDOME	10,529.3	14,962.5	338.4	2.26
WORLD SAVINGS, FS&LA	10,141.8	16,352.3	1,019.2	6.23
COAST SAVINGS & LOAN ASSN	8,803.3	12,898.6	1,037.0	8.04
CROSSLAND SAVINGS, FSB	8,791.3	15,143.8	1,071.6	7.08
DIME SAVINGS BANK OF NEW YORK, FSB	8,652.7	12,007.2	741.4	6.17
FIRST TEXAS BANK, FSB	8,484.6	12,497.3	309.7	2.48
IMPERIAL SAVINGS ASSN	8,329.5	12,349.5	434.0	3.51
EMPIRE OF AMERICA FEDERAL SAVINGS BANK	8,325.1	11,281.4	490.0	4.34
COLUMBIA SAVINGS AND LOAN ASSN	8,089.2	11,152.2	788.3	6.69
GIBRALTER SAVINGS	7,573.8	13,436.2	299.1	2.23
CITY FEDERAL SAVINGS BANK	7,365.2	10,552.8	379.3	3.59

Research: Rivka Nachoma, FT, New York.

President George Bush: a costly rescue plan for the thrift industry.

The mortgage-backed securities market

Sea-change reflects rising interest rates

THE MORTGAGE-BACKED securities market has been the fastest growing segment of the US debt markets in the 1980s, with securities firms piling in to try and corner a piece of this lncrative business.

But over tha past 18 months, a decided sea-change has occurred, partly due to overcapacity and rising US interest rates, but also reflecting the shake-out in the deeply troubled US savings and loans industry.

According to Jonathan Gray, thrift industry analyst at Sanford C. Bernstein and Co, the mortgage market has become the largest debt market in the US, accounting for over half that nation's private sector debt.

Simply put, mortgage-backed securities are bundles of mortgages, typically single family residential loans which have been packaged together with similarly structured deals to form e single entity that can be bought and traded in public debt markets.

The advent of these securities has led to a surge of investors' funds into the housing markets which has by all accounts lowered the cost of the American dream of owning one's one home.

But MBSs owe their lives not to the private sector, but to the US Government which first established the Government National Mortgage Association – known as Ginnie Mae – to purchase and repackage the mortgages from thrifts as a means of helping them generate fresh capital in stimulate home lending.

Soon, Ginnie Mae was accompanied by Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corp (Freddie Mac), which was capitalized with $100m donated by the thrift industry.

These three agencies are responsible for more than 90 per cent of all the mortgage-backed debt issued in the US and all carry the implicit guarantee of the Government, making their securities just about as safe and liquid as that of the US Treasury itself.

In recent years, innovation with MBS structures has led to a rash of new instruments such as the Collateralized Mortgage Obligation (CMO) which has been flexible enough to attract still more investors into this market.

So what has gone wrong?

At the heart of it, US interest rates have risen steadily over the past few years, so that much of the demand for new mortgages, which stemmed from the re-financing of older loans with higher interest rates, has dried up. Also, much of the pent-up demand for housing, built up during the recession years of the late 1970s and early 1980s has receded.

Prices of MBSs slid in the first quarter with fears that dumping would occur, says Norma Cohen

Mortgage lending has fallen from an estimated $450bn in 1987 to a far more modest estimated $320bn drop in 1988. And while complete data for 1989 have not yet been collected, issuance of MBSs has certainly slowed in the first quarter.

The volume of new mortgage-backed securities, excluding government agency issues, fell to $10.8bn in the first quarter from $20.5bn a year ago. And fees to Wall Street firms has fallen in step to $44.1m from $131.4m a year ago, according to Securities Data Co.

While the latest drop in interest rates over the past few weeks has stimulated mortgage demand somewhat, it remains to be seen whether the market will return to its earlier capacity. But the woes of the thrift industry – the business that MBSs were invented for – has made it unlikely that the securities or the business itself will regain their lustre anytime soon.

For one thing, legislation proposed by President Bush aimed at rescuing depositors at the nation's defunct thrifts will require institutions to hold more capital relative to their assets, bringing them into line with requirements for banks.

While surviving thrifts may chose to raise capital, it is more likely that many will opt to shrink their assets.

Thrifts have been the largest single source of demand for mortgage-backed securities. While selling their whole loans to the three government agencies, they have been trading them or purchasing mortgage backed securities which are far more liquid and meet certain regulatory requirements.

Also, the precarious balance sheets of many thrifts currently makes selling their mortgages precarious.

The rise in interest retes means that a portion of them will have to be sold at a loss which is only recognised when the sale takes place.

Furthermore, government and private analysts estimate that about e third of the nation's nearly 3,000 thrifts are technically insolvent and either have been closed or will be closed by federal regulators over the next 18 months. That means that their assets, e huge portion of which are in the form of tradeable mortgage-backed securities, will be sold by federal regulators in an effort to raise cash.

According to e recent study by Salomon Brothers, the 512 troubled thrifts most immediately aided by legisletion pending before Congress, hold to portfolio some $46bn in Federal agency and conventional mortgage-backed securities.

While there have been few signs of wholesale dumping of securities, prices of MBSs slid in the first quarter on fears that dumping will occur.

In early June, Gibraltar Savings, one of the nation's largest thrifts and which is currently operating under the conservatorship of Federal regulators, said it would sell the "a significant portion" of its $4.4bn portfolio in mortgage-backed securities.

The sale is expected to result in losses that will wipe out its regulatory net worth of $383m, rendering it formally insolvent.

Investors remain wary, says **Norma Cohen**

Fund managers step up the hard sell

FOR THE fund management industry, October 19, 1987 was a tidal wave from which recovery has been far from complete.

If anything, for both retail and institutional fund managers, business is tougher than ever.

After all, theirs is a task of convincing the public that the staggering losses seen in the stock market crash of 1987 can be be prevented – or at least minimised – by effective management – and the public is skeptical indeed.

The nnmbers show the effects of the shake-ont. In 1988, the retail portion of the business, the mutual fund industry, had total sales of $77.7bn, exclnsive of money market funds. That reflects a drop of over 100 per cent from 1987's record level of $171.66bn.

One of America's best-known money managers, the Boston-based Fidelity, announced hefty lay-offs earlier this year, while other firms have annonnced more minor cut-backs in staffing.

While the pace has certainly improved in early 1989 – data show that $22bn in mntual fund sales were recorded in the the first quarter of this year, attracting new money remains a problem.

"Redemptions from mutual funds have been below normal," reports Mr Michael Lipper, president of Lipper Analytical Services which specialises in tracking the US mutual fund industry.

"Bnt sales until quite recently have been quite poor," he added. In short, the trend has been for investors, a portion of whom lost principal in the crash, to leave their funds invested in the hope of recovering their losses.

However, they are not committing new money to the business – and that does not bode well for fund managers' profits. About 70 per cent of all mutual fund sales in the US incorporate some sort of sales commission, according to the Investment Company Institute, a trade organisation.

Only about 30 per cent are offered on a so-called no-load basis, meaning that most firms must keep lining up new customers in order to maintain profitability.

"The volatility of income in 1987 shook a lot of people," he explained. While he projects sales of mutual funds will eventually return to an annualised pace of $130bn to $135bn, it is unlikely to occur this year.

But by all accounts, the real challenge facing the fund management industry is the rising cost associated with attracting new business in the face of stepped-up competition and growing investor anxiety abont equity investments generally.

Mr Steven Norwood, vice president at Baltimore-based T. Rowe Price, notes that the greatest interest has been in the least aggressive stock funds and in high-yield bond funds which are thought to offer less risk of losing principal.

And, while T. Rowe Price has lost fewer accounts than many of its competitors – its sales in 1988 were down on 30 per cent over the prior year – it has had to work harder than before to attract new business.

Pension fund customers are also becoming increasingly cost conscious.

For instance, the firm developed a work-sheet for customers to help them decide for themselves an appropriate asset mix for their investments – a marketing ploy that brought in over 100,000 responses.

But those sorts of marketing efforts cost money, as many fund managers are finding out the hard way.

"Even though the business has more money today than it did last year, margins are down," reports Mr Lipper.

Mr Thomas Powers, president of Texas-based Criterion Funds and current chairman of the Investment Company Institute, believes that the rising marketing costs and overcapacity signal a shakeout ahead.

"I think there's going to be further consolidation in the industry as distribution becomes increasingly important.

His own firm has just recently entered into an agreement to be merged into Transamerica Corp, a nation-wide financial services firm.

Among other reasons for the move, Mr Powers said that brand-name recognition will be an increasingly critical element in the ability to attract new business. Also, firms will need the punch of a major, wealthy backer to help promote their products.

"All the ICI studies show investors look for name recognition," he said.

Meanwhile, the institutional side of the business, which largely concentrates on managing billions of dollars in US pension fund money, has also fallen on hard times.

According to Mr Robert Gillette, senior vice president at Frank Russell Associates, a Tacoma, Washington-based firm specialising in tracking the fund management industry, the amount of new pension money being committed to management is in fact falling.

"We've been in a bull market for years and a lot of plans are already overfunded," he explained.

As a result, employers do not need to set aside additional funds to meet pension liabilities and are content with simply managing the cash flow from existing funds. There has also been a shift away from so-called defined benefit plans in the US which guarantee retirees a set level of benefit after a certain age.

Instead, firms are offering defined contribution plans under which the employer contributes a set percentage of the employees' annual wage and the employee receives a lump sum upon retirement. This has reduced outlays for employers, many of whom offer the employee the option of managing the money himself.

Furthermore, changes in US tax law have removed certain incentives for employers to add to their pension funds, also rednclng new money under management.

Pension fund customers are also becoming increasingly cost conscious.

"Institutional clientele are clamoring for lower fees," Mr Russell said. Typically, a good equity fund manager can get 50 basis points on a $100m porfolio.

That demand for lower fees, coupled with rising overheads and falling volumes is bringing to a head the debate over the use of "soft commissions" – the provision of research and other goods and services by brokers to fund managers who agree to conduct a minimum volume of business with them.

The catch is that brokers' commissions are paid for out of the clients' own investment monies, not out of the management fee. In effect, the soft commission system allows fund managers to cover some of their overheads out of clients monies. Of course, many of the services provided fall into the category of those which enhance the fund manager's ability to earn a high return for his client, and thus, are within guidelines set by the Securities and Exchange Commission.

Bnt the drop off in volume of securities purchases in 1988 left many US fund managers well below the qnota which had been agreed with their broker, forcing some to pay rebates.

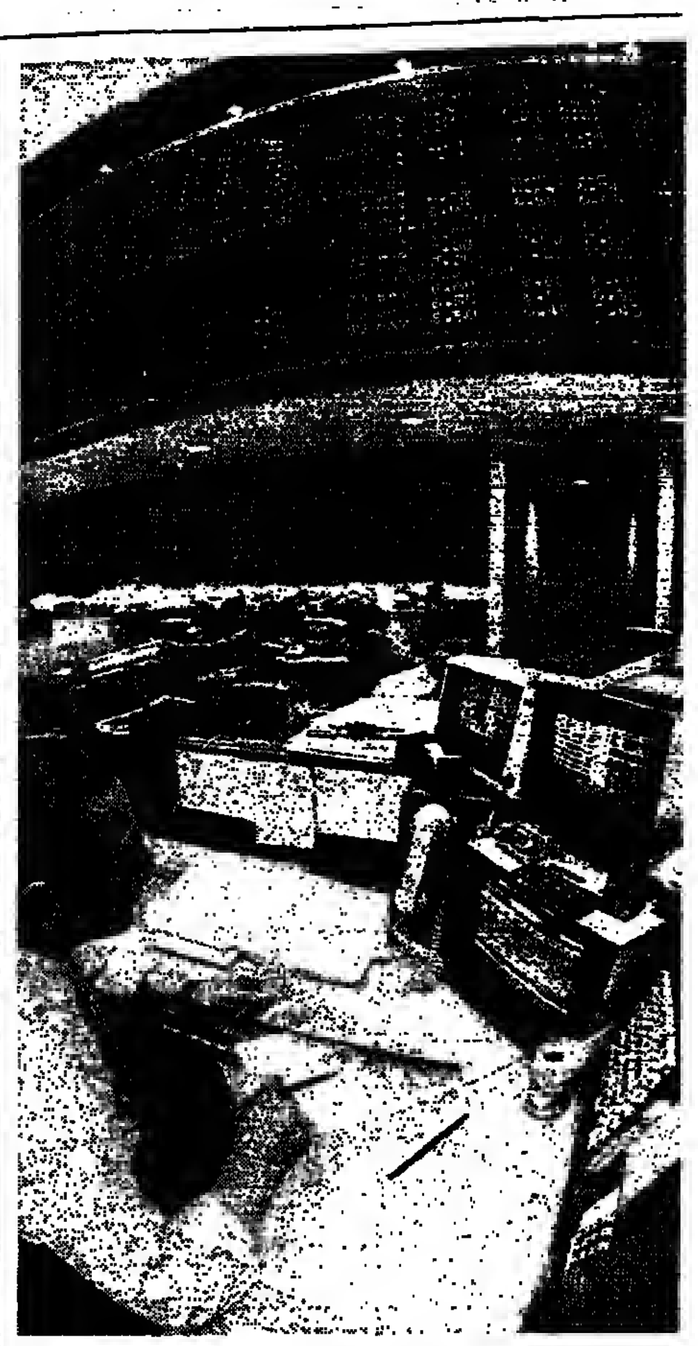
Meanwhile, client tastes in fund management are themselves changing. One recent fad that has gripped institutional investors is the trend toward some of the more mechanistic approaches to fund management.

Asset allocation theory has particularly caught on in a big way since the stock market crash, with investors hoping to at least perform as well as major stock and bond market indices.

Typically, a fund manager invests monies in a basket of stocks which mimics, say, the Standard and Poor's 500 or some other index, hoping to equal its return. Such a strategy also involves heavy reliance on derivative prodncts

"It's a way of delegating asset allocation decisions to an outsider," says Mr Russell.

Several firms, particularly Batterymarch Associates, pioneered some of the techniques in the early 1980s, and with the crash of October 1987, the strategy has become much more popular.



EYES ON THE SCREENS: traders (left) on the New York Stock Exchange keep their eyes on the latest stock prices as the closing bell draws near. US stock prices this spring stood only five per cent below the all-time records they reached two years ago. Above, right: a dealer in New York keeps track of capital markets.

A surge of foreign investment in the US

Substantial increase in cross-border purchases

FOR the US securities houses which dominate the mergers and acquisitions business, it was no surprise when the US Commerce Department announced, just a few weeks ago, that foreign investment in America had surged 61 per cent in 1988.

After all, an increasing portion of their M&A fees are coming from advising foreign companies looking for a strategic toe-hold in America. The Commerce Department said that 1988 investments totalled $65bn, up from $40.3bn in 1987, continuing the steep upward trend seen throughout the 1980s.

The data omit several key categories of foreign investment, notably that which comes in through limited partnerships or securities purchases, making the overall level of purchases even more impressive.

According to the US Government's data, spending was led by the British whose investments rose more than 30 per cent to $21.5bn from $15.1bn. The UK was followed by Japanese investment which doubled to $14.2bn in 1988 and a nearly nine-fold increase in Canadian spending to $10.4bn.

Foreign investment in the US rose by 61 per cent in 1988

Mr Robert Lissin, managing director, M&A, at Morgan Stanley, said that one of the most surprising facets of the foreign investment data is perhaps the fact that the Japanese have not been more acquisitive.

"They are very selective," he said, noting that the recent focus of Japanese M&A activity is on European purchases. Japanese businessmen fear that if they do not secure a toe-hold in Europe prior to 1992, they will be unable to do so later, leaving them to wander in a commercial wilderness locked oat of one of the world's three major markets.

Japanese purchases of US industrial concerns, he notes, have largely been confined to those companies with which the acquirer has had a long-standing business relationship, such as Bridgestone which acquired Firestone Rubber in 1988.

Therefore, it is not surprising that Japanese firms have oot built major repntations for themselves as advisors in US M&A deals.

Instead, the major securities houses have come in through the back door, via investments in M&A bontiques of no mean skills. Nomura Securities, for instance, has a stake in Wasserstein Perella, one of the nation's leading M&A advisors. Also, Blackstone Securities includes a minority holding by Nikko Securities.

While Blackstone has targetted its M&A advisory services towards Far Eastern clients, it remains to be seen whether the partnership approach with Japanese securities houses will give it – or other boutiques which look just like it – an edge when it comes to advising Japanese bidders.

However, data compiled by IDD Investment Services shows that in 1988, two UK firms – National Westminster and Samuel Montagu – moved into the ranks of the top 10 M&A advisors for foreign firms making US acquisitions. Also, in second place, was the newly-formed boutique, Wasserstein Perella which advised acquirors on $7.9bn of deals.

The top-ranking advisor to foreign companies making US acquisitions in 1988 was First Boston which advised on $9.5bn in deals. In third place was Lazard Freres with $4.5bn, with Rothschild in fourth place for $4.4bn and Allen and Co in fifth place for $3.0bn in deals.

But as any foreign company which has coveted a US property can testify, cross border acquisitions can be a 'very tricky business,' particularly for those unfamiliar with the litigious nature of American firms and the political muscle they can flex.

"In the US, at the end of the day, there is only one thing that matters – and that's cash to the shareholders," said Mr Lissin.

Morgan Stanley, which, along with S.G.Warburg advised Grand Met on its successful $5.7bn acquisition for Pillsbury, was able to devise an offer that would give shareholders greater value than anything the company could offer them itself by liquifying its own balance sheet.

But Mr Philip Keevil, managing director at SG Warburg, points out that acertain amount of familiarity with American sensibilities was also a key ingredient in GRand Met's successful bid.

The chairman of the company, for instance, flew out to Mineapolis where Pillsbury is based to hold a meeting with the governor.

'Cross-border deals can be a very tricky business'

"The amount of misunderstanding between US and UK companies is phenomenal," he said.

By making some pre-emptive moves early on in the acquisition process, Grand Met was able to avoid the unsettling battle that Beazer led for Koppers when it sought the Pittsburgh, Pa.-based comapny.

In that instance, Shearson Lehman, a subsidiary of American Express Co and lead advisor for Beazer, found leading Pennsylvania politicians urging residents to cut up their American Express credit cards in defense of the acquiree.

Therefore, IDD's foreign M&A league tables show a dominence of US firms for 1988, although the data may have shifted widely in the first six months of 1989.

But with the overall level of foreign interest in US acquisitions, investment bankers cannot afford to ignore the significance of cross-border activity. Morgan Stanley'a Mr Lissin notes that in 1988, about a third of the firm's M&A revenues came from advising foreigners wishing to acquire US businesses.

Norma Cohen

GROSS TRANSACTIONS IN AND NET PURCHASES OF U.S. EQUITIES

($ Millions)

	1987 Gross activity	1987 Net purchases	1988 Gross activity	1988 Net purchases
Europe	$232,464	$1.932	$154,152	$ (3.423)
Belgium-Luxembourg	11,792	435	7,738	134
France	20,055	(905)	12,028	(281)
Germany	16,208	(70)	10,986	223
Netherlands	11,276	892	5,826	(535)
Switzerland	59,533	(1,123)	34,909	(2,242)
United Kingdom	103,909	631	79,235	(1,034)
Canada	49,947	1,048	33,941	1,088
Latin America, Caribbean	46,900	1,318	38,301	1,248
Bermuda	10,424	(102)	6,663	55
Netherlands Antilles	15,581	(167)	12,729	385
Asia	142,361	11,535	129,624	(1.104)
Hong Kong	12,489	658	6,878	(250)
Japan	102,575	11,365	104,601	1,923
"Other Asia"	20,545	(1,380)	14,143	(2,466)
TOTAL, all countries	$481,971	$16,272	$383,985*	$(2.052)*

Source: U.S. Treasury

Foreign acquisitions of US companies

Year	Total Transactions	Transactions $100m or more	Valued at $1,000m or more	Total Dollar Value Paid (billions of dollars)	BASE*
1972	88	-	-	#	-
1973	143	5	-	#	-
1974	173	4	-	#	-
1975	184	2	-	$ 1.5	84
1976	173	5	-	2.4	87
1977	162	a	-	3.1	92
1978	199	17	-	6.3	134
1979	236	11	-	5.8	142
1980	187	22	-	7.1	110
1981	234	24	4	18.8	126
1982	154	15	-	5.1	81
1983	125	10	1	5.9	59
1984	151	23	2	15.1	85
1985	197	21	3	10.9	80
1986	264	51	3	24.5	156
1987	220	62	10	40.4	128
1988	151	32	3	1.5	61

#Data not collected in that year.
*Base: Number of transactions disclosing purchase price.

Source: Grimm & Co.

FOREIGN TRANSACTIONS IN U.S. SECURITIES

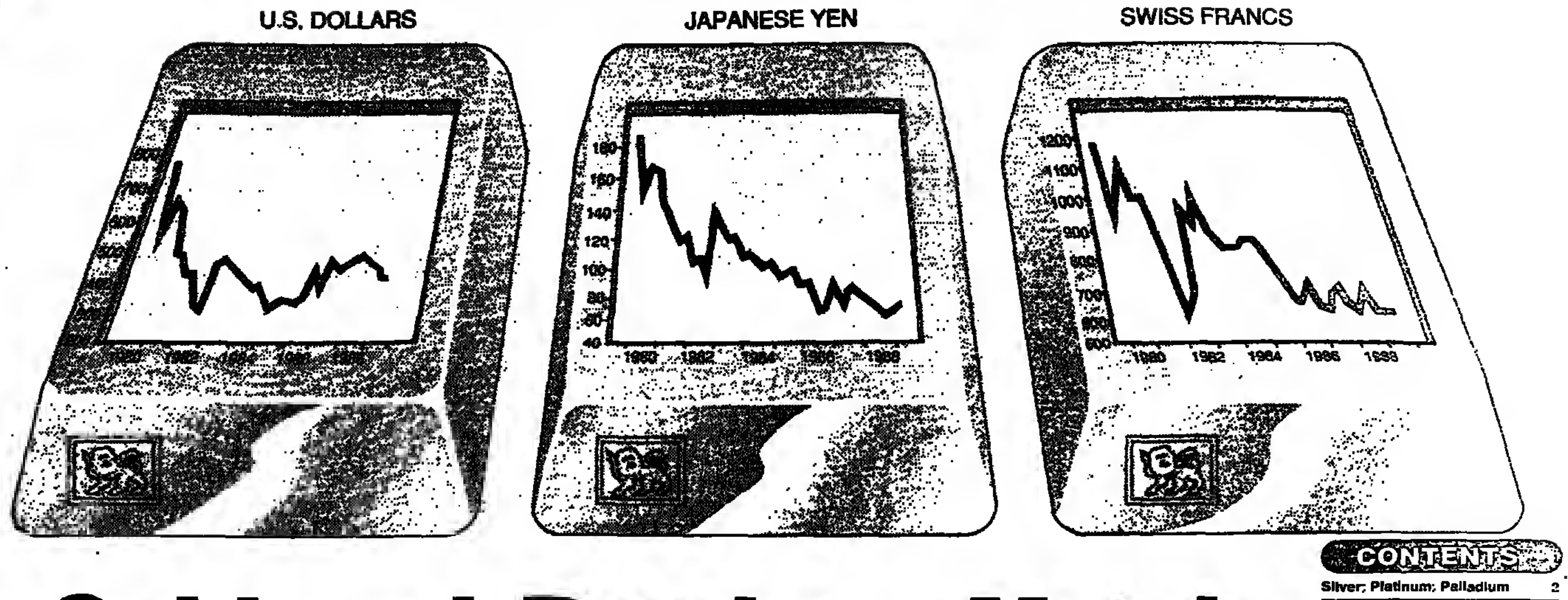
	STOCKS 1987	STOCKS 1988	BONDS 1987	BONDS 1988
Foreign PU	249,122	180,960	105,856	86,362
Foreign SA	232,849	183,017	78,312	57,715
Net Purchases	16,272	-2,056	27,544	28,647
Foreign Countries	16,321	-1,881	26,804	29,193
Europe	1,932	-3,423	21,969	17,892
France	905	-281	194	143
Germany	-70	229	33	1,344
Netherlands	892	-535	269	1,514
Switzerland	-1,123	-2,242	1,587	813
UK	631	-1,035	13,770	13,642
Canada	1,048	1,087	1,296	711
Latin America	1,318	1,249	2,857	1,930
Middle East	-1,360	-2,466	-1,314	-174
Other Asia	12,896	1,362	2,021	8,900
Japan	11,365	1,923	1,622	7,686
Africa	123	188	18	-8
Other countries	365	121	-61	-68

Research: Rivka Nachoma, FT, New York.

FINANCIAL TIMES SURVEY

These are unpredictable times for gold. Last year was the first since 1968 when the gold price did not rise in real dollar terms. The problem lies partly with the miners themselves and investor disenchantment in the West, writes Kenneth Gooding

10 Year Gold Price In Major Currencies Per Troy Ounce, Fine Gold



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Yellow metal's hard times

THESE are exciting and unpredictable times for gold. For example, on February 18 the bullion market was hit by a tidal wave of forward selling by Australian gold mining companies. This happened to coincide with the Chinese New Year, traditionally a quiet time for gold demand. Consequently the gold price in London fell sharply in the first trading hour, by $4.35 a troy ounce to $378.15.

For the Australians it made good sense. They had been poised to take advantage of any sudden fall in the value of the Australian dollar and by acting quickly they sold forward for about A$40 an ounce more than they could have got for their gold the previous day.

This was one of the most obvious examples of the way that gold mining companies, particularly in North America and Australia, worried about the steady fall in the gold price, actually make it worse. Any time the price shows signs of recovery, they rush to sell forward metal they will not produce for at least another two or three years.

The irony is that gold miners can reasonably say that, by locking in their profit by selling forward this way they protect themselves from the worst impact of the falling price.

The severity of gold's price fall can be judged by the fact that 1988 was the first year since 1968 – when the gold price was freed after being pegged at $35 an ounce – in which the gold price did not rise in real US dollar terms.

During 1988 the US dollar price fell by nearly 15 per cent. It opened at $480 an ounce and closed at $410. The range was $485 at the top in mid-January to $395 in September. The average, based on the London "fix", was $437.10 compared with the 1987 average of $446.55 an ounce.

At current price levels about 20 per cent of the non-Communist world's gold is being produced at a loss, according to Consolidated Gold Fields' annual study of the market. South Africa, the world's leading gold producer and a country where forward selling is hardly ever employed, is worst affected.

While the activities of the gold miners themselves have contributed to the gold price fall, its origins can be traced to the disenchantment of investors in North America and Western Europe who seem to have fallen out of love with the yellow metal.

The bearish sentiment has been so bad that many traditional portfolio holders of gold bullion have succumbed – even the Swiss banks, those staunch supporters of gold as a long-term investment. Many have reduced bullion holdings to minimum acceptable levels. In some cases they have sold their last ounce.

Yet investment demand wields the greatest influence on the gold price. "While supply and fabrication demand are important, investors serve as the 'swing' factor that determines whether there are sufficient gold supplies in the market at a given time and price and, if not, in which direction prices must head in order to restore a balance to supply and demand," says Mr Jeffrey Christian of Christian, Podleska, and van Musschenbroek (CPM), the precious metals and commodities research and consulting group.

CPM suggests that in 1984 and 1985 investors wanted between 310 and 440 tonnes of gold at prices between $300 and $375 an ounce. In the following two years their appetites doubled.

Consequently investors pushed the price up by 41 per cent in two years and this encouraged more metal to the market as well as discouraging gold users – jewellers, dentists and electronics manufacturers – from buying.

This increased the amount of gold available to investors to 684 tonnes in 1986 and 715 tonnes in 1987.

Last year investors pulled back. CPM reckons they bought only 370 tonnes. "Having bid the price up to attract additional metal in the previous two years, investors abandoned the market with an oversupply. Prices had to fall in order to induce supply and demand adjustments," says Mr Christian.

That tells only part of the story because, while investors in North America and Europe deserted the gold market, those in the Far East bought as never before.

One consequence was that demand for gold coins, a favourite among American and some European investors, fell last year while demand for the kilo bullion bars and other, smaller, bars of high-purity (99.99 per cent) destined for the Far Eastern markets was so great that refineries simply have not been able to cope. Deliveries cannot be made until months ahead and premiums are higher than usual.

"During 1988 and early 1989 net sales of gold from Europe and North America has fed an almost insatiable appetite for gold among many Asian investors," says Mr Jeffrey Nichols, managing director of the American Precious Metals Advisors consultancy group.

The main Asian gold centres imported about 1,500 tonnes of gold to satisfy investment demand for bars as well as jewellery fabrication requirements, he suggests.

"This eastern demand was met not only from the supply of new gold entering the market but also from massive net sales by investment and dealer stocks in the US and Europe."

According to Mr David Saunders of bullion banker Mase Westpac Australia, although it is generally believed that Taiwan and Japan were the largest importers of gold in 1988, in an official sense Hong Kong outstripped them.

Japan took just under 300 tonnes of gold, Taiwan about 330 tonnes and Hong Kong took 460 tonnes. Of this, about 300 tonnes came from Switzerland and the UK, shared equally, and about 100 tonnes from Australia and the US, with Canada and South Africa next in the rankings.

Mr Saunders says that most of this gold did not stay in Hong Kong even though the official export of gold amounted to only 22 tonnes, of which 16 tonnes went to Taiwan, three to China and just over one each to Macao and Thailand.

"While there is an extremely booming jewellery industry in Hong Kong, I do not think that anyone would claim that the balance of some 438 tonnes was absorbed by this industry," says Mr Saunders.

"Clearly, most of it was re-exported in an undeclared fashion. China seems to have been the recipient of some but the bulk would have found its way to Taiwan with some also going to Thailand and possibly Korea."

The Far East appetite for gold left supply and demand more or less in balance last year. According to Mr George Milling-Stanley, author of Consolidated Gold Fields' annual review of the market, total supply of the metal to the non-Communist world last year was down by 10 per cent at 1,850 tonnes.

The decline was caused by lower scrap deliveries, another result of low prices. Production of new gold from the non-Communist world's mines was a record 1,538 tonnes.

Fabrication demand rose by 16 per cent to a record 1,844 tonnes, absorbing virtually all the conventional supply, says Mr Milling-Stanley.

The market was pushed into oversupply by a phenomenon that in the past might have been considered "unconventional" supply but is now endemic in the industry – forward selling and gold loans. These have become so important that they should be considered as much a part of the total gold supply as mined production, suggests Mr Nichols of APMA.

(Gold loans and forward sales constitute what might be termed "accelerated supply" as they both involve the delivery to today's market of physical gold as a proxy for gold which has not yet been mined. The loan will be repaid out of future production but the market has to absorb the physical gold immediately.)

Mr Nichols calculates that during 1988 these transactions brought forward into current-year supply some 467 tonnes of gold that had not yet been mined "and in some cases will not be mined until the mid-1990s."

Forward sales and gold loans contributed only 109 tonnes to supply in 1987 so the incremental supply last year was 358 tonnes.

"This influx of metal, much of which was borrowed from the central banks and bullion dealers, battered the market and contributed to the sharp price decline," he says.

Like many other analysts, Mr Nichols believes that the peak of gold loan and forward selling activity is over and that this year they will total about 265 tonnes and be less of a depressant on the market.

Ms Rhona O'Connell, precious metals analyst with Shearson Lehman Hutton, goes along with that point of view. She estimates that gold loans alone contributed at least 150 tonnes to supply last year.

"The gold loan market is here to stay, in an ever-more sophisticated form," she suggests. "However, we expect that the net supply of loaned gold to the market has peaked on an annual basis in 1988."

Another unpredictable element in the gold market is the behaviour of the central banks. At the end of last year 35,741 tonnes or about 35 per cent of all the gold ever mined was held in the reserves of the central banks, the International Monetary Fund, the Bank for International Settlements and the European Monetary Co-operation Fund.

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David Blackwell on the cloud hanging over silver

Lack lustre silver fights to regain investor appeal

SILVER has been in the doldrums for the past 12 months or more, and there appears to be precious little sign of a breeze.

The fall in the price below $6 an ounce this year has seen some of the more marginal mines closed down, and analysts are not predicting any sustained rally above the $6 level at least for the rest of this year. Last year prices averaged $6.53, and in 1987 more than $7.

Two factors have worked against the silver price, according to Ms Rhona O'Connell, precious metals analyst with Shearson Lehman Hutton in London. Silver has lost its attraction as an investment, and fabricators have been destocking.

Historically the use of silver as an investment has been concentrated in the US, which has a large indigenous mining industry. But throughout 1988 there was a net disinvestment in both North America and Europe.

"Silver is always a sensitive inflation indicator," says Ms O'Connell. "Inflation in North America has been perceived as under control – there has been no need for distress hedging."

She doubts whether the man in the street has sold back, but funds have liquidated and "this has put a cloud over silver."

At the same time high interest rates have led to destocking from fabricators. In the early 1980s the volatile and high prices led to consumers adopting a hand-to-mouth existence. But from 1985 to 1987 lower prices and lower interest rates led to some tentative restocking. Last year, however, with prices down and interest rates up, destocking began again.

By the end of May, stocks on New York's Comex reached a record 6,380 tonnes – more than 800 tonnes over the amount of stocks on January 1.

Meanwhile, mine production has been increasing. This year Shearson estimates total world mine production will be 11,500 tonnes, compared with 10,900 tonnes in 1988.

This is mainly because most new production of silver is not price sensitive as it is a by-product from lead, zinc or gold mines. Last year's high prices for base metals encouraged companies to maximise production.

Much of the gain in output has been concentrated in the US. Green's Creek, operated by a wholly-owned subsidiary of BP Minerals, came on stream in March and is likely to produce 145 tonnes this year and 200 tonnes next year, according to Shearson. Echo Bay's McCoy Cove mine is also expected to produce 200 tonnes next year after 84 tonnes this year.

The increase in production has come despite the continuing troubles of Peru, which in the early 1980s was up with Mexico at around 1,800 tonnes a year, and planning for 2,000 tonnes.

Last year about 35 per cent of all Peruvian metals output was lost because of strike action throughout most of the final quarter and deteriorating equipment. Silver production fell to 1,500 tonnes.

Ms O'Connell doubts whether the Peruvian industry can recover this year to increase production. "Peru is to the silver industry what Zambia is to the copper industry – it has no foreign exchange so the infrastructure cannot be repaired."

Also looming over the industry is the possibility that Peru might attempt to solve part of its US dollar reserve shortage by selling some of its stocks of refined silver on the open market.

The effect of this on the silver price "could be devastating, with repercussions right through to 1990," the mining team at Ord Minnett, the securities house, suggested earlier this year. Already some marginal mines have been forced out of business.

United Keno Hill Mines, 33 per cent owned by Falconbridge, in January shut its three silver mines in the Galena Hills area near Elso in the Yukon, citing high operating costs due to low silver prices and a shortage of skilled workers. Last year Keno produced 1.74m ounces of silver and 6.2m lbs of lead.

This month Agnico-Eagle Mines, which produced 1.35m ounces last year, suspended silver production at its three mines in the Cobalt area of Toronto, saying it needed a silver price of $9 an ounce to break even.

Hecla closed the Escalante mine in south-west Utah at the end of last year, but this was due to the depletion of ore reserves rather than low prices, and the mill will continue to treat stockpiled ore into late 1990.

Secondary supplies rose to 3,850 tonnes last year from 3,625 tonnes in 1987, according to Shearson. This should stabilise for the current year.

Total supplies for 1988 were 14,950 tonnes compared with 14,690 in the previous year. They are expected to reach 15,700 this year.

In spite of the lack of demand for silver as an investment, industrial demand has been steady since the price fell below $6. Total fabrication demand is expected to reach 15,795 tonnes this year, compared with 14,808 tonnes in 1988 and 14,082 tonnes in 1987, according to Shearson.

The healthy increase in fabrication demand has been partly a function of strong industrial growth benefitting the electrical and brazing/solder sectors, according to Ms O'Connell. But the healthiest sectors have been photography and jewellery.

Photography offtake, which is growing about 11 per cent a year, reflects not only increasing wealth but also increasing leisure time in the West. Jewellery fabrication, now about 25 per cent ahead of early 1988 levels, reflects a renewed interest in the metal as against platinum, the much more expensive white metal.

Ord Minnett says that, as further expansions and reactivations of lead and zinc mines take place this year, and as new gold mines come on stream, the expansion in production of price-insensitive silver will continue. It reckons the annual addition to inventories as likely to be above 3,000 tonnes next year. The company suggests prices will average $5.75 an ounce this year and next year.

Ms O'Connell believes silver's position cannot get much worse. "The next move is likely to be up rather than down. But the dollar needs to be going south with inflation out of control for the price to clear $6."

Liquid gold: pouring gold at a Nevada plant

PLATINUM

Market unlikely to settle after another record year

THE insatiable appetite of the Japanese for platinum, coupled with the continuing growth of the automotive exhaust catalyst market, last year sent world demand for the metal to record levels again.

This year demand is set to exceed supply for the fifth consecutive year – and the deficit will continue for the next two or three years, according to Johnson Matthey, the world's largest platinum marketing company. And while the supply deficit for 1989 is not expected to be as great as last year's it will still lead to pressure on available stocks.

The company's annual platinum review, published in May, puts overall demand for 1988 at 3.66m ounces – an increase of 10 per cent and the second year in succession that the 3m ounce level was exceeded. Supplies of primary metal, on the other hand, grew by only 3 per cent to 3.2m ounces. The deficit of supply more than doubled to 460,000 ounces.

Shearson Lehman Hutton puts total world supplies at 3.25m ounces for 1988, with total industrial demand net of investment at 3.18m ounces. For 1989, it estimates supplies at 3.35m ounces and industrial demand at 3.02m ounces. But, according to the company's quarterly report on precious metals published last month, investment activity this year needs to be only half the 677,000 ounces of 1988 before any slack appears in the market.

Fabrication demand last year was strong, especially in the jewellery sector, where "the Japanese were phenomenally heavy buyers," according to Shearson. Johnson Matthey estimates Japanese imports at 2.17m ounces for 1988, a 30 per cent increase over the previous year. Japan accounted for 54 per cent of all the primary platinum available to the West in 1987 – last year its share grew to 68 per cent.

Johnson Matthey says it is unlikely that Japan will repeat last year's extraordinary level of imports, but it looks set to remain the biggest market by far. But it expects jewellery demand to be maintained, while the investment metal business might fall.

"We believe that platinum will continue to develop as an investment instrument but at a slower pace than over the last four years. Probably the Far East will be the major market of interest, with North America somewhat less active by comparison," its review suggests.

Certainly the past year has seen a strong growth in the small investment sector. Last September saw the launch of the Australian Koala, which passed its first year's sales target of 100,000 ounces within two months. It was quickly followed by the Royal Canadian Mint's Maple Leaf with a sales target of 800,000 ounces for its first year.

Shearson puts particular emphasis on the investment sector in the future. "Probably one of the most important features of the platinum market in the 1990s is that investment activity in Europe and North America needs to start to build a solid base now if the market is to remain tight right the way through to the middle of the next decade," it says.

However, Shearson does not expect Japanese jewellery to maintain its recent spectacular performance, which has been partly induced by tax changes and the nation's phenomenal growth rate and associated wealth." But it does see growth potential in all other sectors, and expects offtake to reach 3.53m ounces in 1993, an increase of 350,000 ounces over last year's levels.

The second biggest consumer of platinum is the automotive catalyst sector, which Johnson Matthey says took 1.33m ounces last year, including 160,000 ounces recovered from spent catalysts. The group believes that the increasingly fast pace of introduction of car catalysts in Western Europe should sustain this demand in future.

The rapid expansion of catalyst manufacture in Europe will help Europe and the rest of the West to take over North America's position as the second largest consuming region next year, Shearson says.

The platinum market will continue to be volatile following last year's fluctuations which took it to below $450 an ounce in February and to a peak of $650 an ounce in June. The average of London quotes for 1988 was $530 an ounce – $25 an ounce lower than in the previous year.

The platinum price dropped $90 in 24 hours in mid-December following the announcement by Ford of the US that it was testing an exhaust controlled catalyst which did not use platinum. The announcement blew the speculative froth off the market, which had been trading at over $600 an ounce, according to Ms Rhona O'Connell, Shearson's precious metals analyst. But the reaction was too big, and reflected the relatively thin trading volume of the Nymex futures market, she feels.

Johnson Matthey expects the price to trade this year between $500 and $600 an ounce. Shearson expects an average this year of $550/$565 an ounce – assuming a soft landing for the US economy and a slowing elsewhere in the West.

Ironically, the price fell below $500 an ounce shortly after Johnson Matthey published its review last month. But Ms O'Connell remains convinced that below $525 an ounce there is clear evidence of strong consumer demand, especially considering the rundown of stocks. "The recent weakness is very largely speculative," she says.

On the supply side, South Africa maintained its dominant 80 per cent share of western supplies with output of 2.58m ounces last year. Johnson Matthey expects only a modest change in primary supplies this year with South Africa producing little more Major South African contributions to western supplies remain some way off, according to Johnson Matthey. Producers will be looking hard at the reliability of the strong demand base, and are most unlikely to overload the market if serious doubts arise.

"Given the attritive effect of the sheer practical and financial complexities of bringing new platinum sources onstream, most commentators have already down-rated their projections of extra South African supply by 1995 from a possible 1m ounces to something close to 750,000 ounces," says the company.

David Blackwell

Platinum supply and demand Western world ('000 oz)

	1983	1984	1985	1986	1987	1988
SUPPLY						
South Africa	2,070	2,280	2,340	2,350	2,520	2,580
Canada	80	150	150	150	140	145
Others	40	40	40	40	40	95
USSR sales	290	250	230	290	400	400
Total supply	2,480	2,720	2,760	2,830	3,100	3,200
DEMAND by region						
Western Europe	330	400	400	470	560	545
Japan	950	1,140	1,250	1,010	1,650	1,915
North America	720	910	1,010	1,190	900	850
Rest of western world	190	180	170	170	180	310
Western sales to Comecon/China	20	30	30	40	30	40
Total demand	2,200	2,660	2,860	2,880	3,320	3,660

Source: Johnson Matthey

Japan's insatiable appetite for platinum, coupled with the continuing growth of the automotive exhaust catalyst market, last year sent world demand to record levels

The platinum market will continue to be volatile following last year's fluctuations which took it to below $450 an ounce in February and to a peak of $650 an ounce in June

PALLADIUM

Unfashionable metal finally steps into the limelight

PALLADIUM, normally seen as an unglamorous cousin of platinum, has stepped firmly into the spotlight twice in the past year – first when Ford announced last December that it was testing e car exhaust catalyst which did not use platinum, and then at the end of March after a possible breakthrough in nuclear fusion experiments.

The renewed interest in the metal has been reflected in the price which touched $180 an ounce in London in April – the highest level since November 1980. Prices for 1988 averaged only $124 an ounce in London, down $8 on the average for 1987, according to Johnson Matthey's latest platinum review.

Johnson Matthey believe that last year's price did not do justice to strong demand for the metal, which last year exceeded supply by 50,000 ounces. It puts supplies to the West in 1988 at 3.265m ounces, 3 per cent above the 1987 level, with demand at 3.315m ounces, an increase of 4 per cent.

Ms Rhona O' Connell, precious matals analyst with Shearson Lehman Hutton, says the balance between supply and demand is now, and will remain, very tight. She sees the price averaging $155 an ounce for the rest of the year, and trading between $140 and $180.

Palladium fs mined principally as a by-product of platinum. Johnson Matthey estimates 1988 deliveries from the Soviet Union to the West at 1.73m ounces, 60,000 ounces down on 1987. South Africa, the second biggest supplier, produced an unchanged 1.1m ounces.

The metal is already in strong demand from the electronics industry, particularly in Japan. This sector increased consumption by 8 per cent to take just over half of the West's supplies last year, according to Johnson Matthey. Palladium pastes are used for multi-layer ceramic capacitators and hybrid integrated circuits.

A further 30 per cent last year was used in dentistry, where demand is growing because of a worldwide trend away from the use of gold based dental alloys.

Use of the metal in autocatalysts took 6 per cent – mainly in Japan. Johnson Matthey is *sticking* to *its* prediction that the use of palladium in autocatalysts will continue to decline in spite of the widespread belief that Ford's non-platinum autocatalyst will be palladium-based.

Ford's casual announcement at the end of last year was quickly followed the revelation that Chrysler was testing a non-platinum catalytic converter using palladium and rhodium.

There are two very good reasons why the American car makers would prefer to use catalytic converters based on palladium rather than platinum. The first is price – palladium has been only about one third the price of platinum. Second, unlike platinum, palladium is mined in the US itself.

It comes from the Stillwater mine, 80 miles south-west of Billings, Montana. Stillwater is the only primary producer of platinum group metals in North America – and palladium is the main product.

The Stillwater deposit was discovered in the early 1970s by the Manville Corporation of Denver. Chevron Resources joined the exploration effort in 1979 and today is managing the mine. In 1985 LAC Minerals entered the picture by buying the one-third interest of Anaconda Minerals, which has now gone out of business. LAC last year decided to sell its stake to the other partners for C$48m.

From the start of production in March 1987 until the end of last year Stillwater had sold 180,000 ounces of palladium and about a third as much platinum, according to Johnson Matthey. It was the principal new contributor to world palladium supplies, of which more than 90 per cent was provided by South Africa and the Soviet Union.

Palladium *has one* major drawback when compared with platinum in autocatalyst use – it is much more easily poisoned by lead, which diminishes its effectiveness. In the US even the "lead free" fuel still has a very small quantity of lead in it. In Western Europe, now in the process of switching to unleaded petrol, the residual lead in the fuel distribution *system* (*tankers*, pumps and so on), will remain to taint the fuel for many years to come.

Palladium is also less durable than platinum as a catalyst, and soma Japanese car makers which once fitted palladium catalysts switched to platinum as their domestic regulations were tightened. It is questionable whether palladium could cope if the US gradually tightened the regulations so that a catalyst would have to remain effective for 100,000 miles rather than the 50,000 currently stipulated.

"In principal it could work. In practice, it is unlikely to succeed," says Ms O'Connell of Shearson.

While the Ford news knocked platinum prices on the head and lifted palladium, it was the nuclear fusion experiments earlier this year that really gave palladium a boost. Speculative buying flooded into the most illiquid and *thinly* traded precious metal market following news that two electrochemists at the University of Utah had achiaved nuclear fusion at room temperature in electrochemical cells using palladium and platinum electrodes immersed in so-called "heavy" water. The Fleischmann/Pons experiment *claimed* an incremental power output of approximately 26 Watts for each cubic centimetre of palladium cathode after passing a current.

Prices rose sharply to $180 an ounce – still a long way, however, from the record $335 an ounce reached in March 1980 at a time of rampant inflation, political tension and the Hunt brothers' attempt to gain control of the silver market. The reason for its slow movement since, despite the persistent deficit of supply to industrial requirements, lies in the huge stocks built up in the 1970s and early 1980s, according to Mr Jeffrey Nichols of the New York-based American Precious Metals Advisors consultancy organisation.

These probably reached 2m ounces at the peak but stocks available to Western market are now back at a very low level. On the New York Mercantile Exchange, where trading in palladium *futures* rose by 136 per cent during May's speculative burst, stocks at the end of 1988 were 35,100 ounces, a fall of 26,700 ounces

Meanwhile the jury is still out on the cold fusion experiments which scientists around the world have rushed to their laboratories to make.

She *also* points out that if the reaction is discovered to be purely chemical and does not result in the emission of very high energy neutrons, then the palladium requirements to fuel just the UK, based on last year's electricity sales, would be of the order of 1,729 tonnes – or 17 years' total supply.

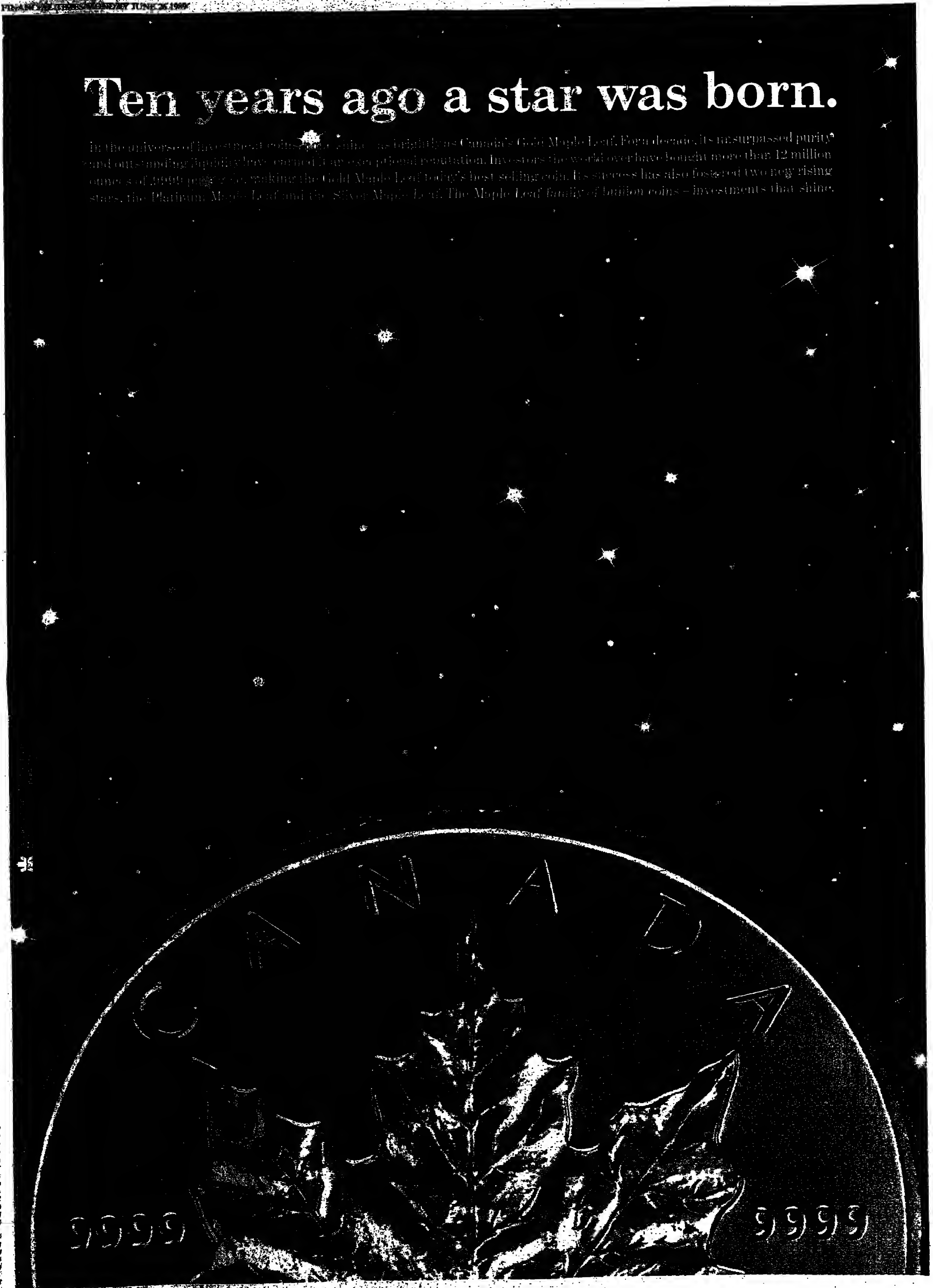
David Blackwell

Palladium supply and demand: Western world ('000 oz)

	1984	1985	1986	1987	1988
SUPPLY					
South Africa	980	1,010	1,040	1,090	1,095
Canada	190	190	190	190	170
Others	90	90	90	90	270
USSR sales	1,700	1,440	1,600	1,790	1,730
Total supply	2,960	2,730	2,920	3,160	3,265
DEMAND by region					
Western Europe	520	520	540	550	595
Japan	1,250	1,080	1,230	1,430	1,535
North America	990	940	965	1,035	1,020
Rest of Western world	200	200	175	170	165
Total demand	2,960	2,740	2,910	3,185	3,315

Source: Johnson Matthey

Interest in the metal has been reflected in the price which touched $180 an ounce in London in April – the highest level since 1980


Ten years ago a star was born.
In the universe of investment coins, shine as brightly as Canada's Gold Maple Leaf. For a decade, its unsurpassed purity and outstanding liquidity have earned it an exceptional reputation. Investors the world over have bought more than 12 million ounces of .9999 pure gold, making the Gold Maple Leaf today's best selling coin. Its success has also fostered two new rising stars, the Platinum Maple Leaf and the Silver Maple Leaf. The Maple Leaf family of bullion coins – investments that shine.
CANADA
9999
9999

PRODUCTION

High-tech and high prices help sustain the gold rush

SOMETIMES statistics tell the story. So it is with gold production. Last year output in the non-Communist world jumped by 11 per cent to a record 1,538 tonnes. Some analysts suggest production could grow by another 12 per cent this year to approach an unprecedented 1,709 tonnes.

This is not a recent phenomenon. Gold production in the non-Communist world has risen at an average compound annual rate of 6 per cent since 1979.

Two-thirds of the increase has come from only three countries: the US, Canada and Australia. Their combined compound growth has been a staggering 21 per cent a year.

According to Mr Tim Petterson, gold analyst with the Metals and Minerals Research Services consultancy group, the factors which lead to the extraordinary 1980s gold rush included:

□ A high gold price. For much of that time the price has been well above $300 an ounce – the average in the five years to the end of 1988 was about $420 compared with about $132 in the 1970s. The price in Australian dollars looked even better because of the weakness of that currency against the US dollar.

Nearly 20 per cent of the non-Communist world's gold output is currently being produced at a loss. South Africa, the leading producer, is particularly affected

□ The increased use of sophisticated geophysical and geochemical exploration methods which have been largely responsible for some of the exceptional exploration successes of recent years. Improvements in mining methods, ranging from mine planning computer packages through to new underground mining techniques, have helped to keep production costs low.

□ Heap leaching in the US, where the gold is leached from ore piled on plastic sheeting by a weak solution of cyanide, and off-the-shelf carbon recovery plants (where gold in solution is attracted to small granules of carbon) in Australia are considered by some to be the most important technological advances. They permitted a massive amount of previously uneconomic, low grade ore, often in very remote places, to be mined successfully.

□ Financing became easier. Financial incentives included "flow-through" funding, a Canadian government exploration incentive scheme, and Australia's tax-free gold production. At the same time, large and small companies alike were able to raise easy cash during the prolonged bull market in stocks which lasted until the crash in October 1987. Gold loans, with very low interest rates and where both interest and principal can be paid in gold, became a standard mine financing technique for large companies, mainly in North America.

□ Low base metals prices in the 1982-87 period were also a considerable spur to gold production in an indirect way because leading base metal producers, enticed by the gold price, invested in gold instead of their traditional businesses.

Mr Petterson says that by far the most important factors were the use of heap leaching in the US and carbon recovery plants in Australia because of their impact on costs.

According to Consolidated Gold Mines' latest review of the market, the US mining industry last year managed to contain its working costs in nominal terms at $223 an ounce. In real terms, costs incurred during 1988 fell marginally compared with 1987.

Working costs in Australia increased by more than 12 per cent in US dollar terms last year to $238 an ounce because of the strengthening of the local currency against its US equivalent. This compared with average non-Communist world cash costs of $249 an ounce last year, up from $236 in 1987, a rise of 5.5 per cent. (Depreciation costs of about $50 an ounce should be added to cash costs to establish a gold producer's break-even costs).

At this level, gold mining remained a profitable business for most companies during 1988, says Mr George Milling-Stanley, author of the Gold Fields' review. However, he estimates that nearly 20 per cent of the non-Communist world's gold output currently is being produced at a loss.

South Africa, the world's leading gold producer, is particularly affected. Its gold output has languished. Its share of non-Communist world production dropped last year from 44 per cent in 1987 to just over 40 per cent. Average costs rose sharply in that country, from $259 to $275 last year. If South Africa's performance is excluded, the rest of the non-Communist world's costs rose by only 3.4 per cent from $207 to $214 an ounce.

The Gold Fields' review does not cover Eastern bloc gold output, most of it from the Soviet Union, the second-largest of the world's gold producers.

However, Mr Jeffrey Nichols, managing director of the American Precious Metals Advisors consultancy organisation, suggests that gold production in the Soviet Union is running at about 295 tonnes a year.

The Soviet Union sold about 180 tonnes to the West last year but in 1989, because of Moscow's attempts to provide a better standard of living via the reconstruction (perestroika) programme, this could rise to 187 tonnes.

The other two Eastern bloc gold producers, China and North Korea, traditionally sell all their output to the West. Mr Nichols estimates China's production last year was about 81 tonnes. Before the recent turmoil in that country the total was expected to rise by another 6.5 tonnes in 1989.

North Korea probably produces about 25 tonnes a year which would have taken total Eastern bloc sales to the West to around 286 tonnes last year. In 1989 this could rise to 311 tonnes, according to Mr Nichols. He believes total gold mine production in the non-Communist world will rise by about 6.7 per cent this year to top 1,595 tonnes.

However, Ms Rhona O'Connell, precious metals specialist in Shearson Lehman Hutton's mining team, suggests output could jump by as much as 12 per cent, to take gold production towards 1,700 tonnes. Most of the increase will be concentrated in Australia and the Pacific Rim, plus North America, she adds.

According to Ms O'Connell, the growth in production seen in the past few years will not be maintained into the 1990s but, for a couple of years at least, the momentum will be taken up by Papua New Guinea.

In May this year the go-ahead was given for the rich Porgera mine in PNG to be developed by an international consortium. Output should start in 15 months time and rise to 800,000 ounces a year (about 25 tonnes) for the first six years at a cash cost of only $105 an ounce.

Evidence has also emerged to suggest that another PNG deposit, at Lihir Island, is the largest outside South Africa. Reserves are estimated to be 1,328 tonnes of gold. If the go-ahead is given, production at Lihir should start in the third quarter of 1992 and reach about 500,000 ounces of gold annually (15.5 tonnes) for the rest of the 1990s.

Ken Gooding

Gold supply and demand in the Non-Communist world (tonnes)

	1983	1984	1985	1986	1987	1988
Mine production	1,114	1,162	1,233	1,293	1,382	1,538
Net communist sales	93	205	210	402	303	258
Net official sales (purchases)	142	85	(132)	(145)	(72)	(270)
Scrap	294	291	304	474	405	324
Total supply	1,643	1,742	1,615	2,024	2,018	1,850
Fabrication demand	1,231	1,483	1,485	1,686	1,598	1,844
Net surplus	411	260	130	338	422	6
Identified bar hoarding outside Europe and North America	73	332	306	214	268	474
Net implied investment (disinvestment) in Europe) and North America*	333	(72)	(176)	124	154	(468)

*Includes net impact of gold loans and forward sales

Source: Consolidated Gold Fields

COINS

Eagle loses out to Maple Leaf

CANADA'S Maple Leaf appears to have come off best in the battle for shares in the gold coin market, fighting back against the determined challenge which had carried US Eagle briefly into the lead.

According to Shearson Lehman Hutton's Annual Review of the Gold Industry, overall gold usage in official coin fabrication in 1988 amounted to a rather disappointing 132 tonnes, down from 206.6 tonnes in 1987 and an exceptional 316.7 tonnes in 1986. Most of the fall represented the elimination from the total of one-off commemoratives.

But there was also a sharp fall in mintings of the US Eagle – down from 35 tonnes in 1987 to an estimated 15 tonnes, according to Shearson. Although that figure was depressed by the US Mint continuing to run down stocks of the coin the performance was disappointing enough to attract public comment from Senator Frank Annunzio, chairman of the House of Representatives' coinage sub-committee.

Despite efforts to win a broadly based market share following its launch in 1986 the US coin "remains primarily dependent on the US for its retail sales," says the Shearson review, and even at home 1988 sales were "at levels notably behind those of 1987."

Meanwhile Maple Leaf fabrication was estimated by Shearson to have absorbed about 40 tonnes of gold, up a little from 1987, while sales were thought to have approached 50 tonnes.

The American Precious Metals Advisors consultancy group of New York reckoned the gap between the Maple Leaf and the Eagle was somewhat narrower, putting 1988 mintings at 37.6 tonnes and 17.4 tonnes respectively. And it expects the Eagle to regain some ground this year, with mintings rising to about 20.2 tonnes while the Maple Leaf's remain about level.

The relative strength of Maple Leaf sales has been aided by the fact the principal area of demand has been in the Far East – APMA described US and European coin sales as "anaemic" – where high purity products tend to be favoured. That puts the 22 carat Eagle (91.67 per cent pure) at a considerable disadvantage to the 24 carat Maple Leaf (99.99 per cent pure). The coins trade at the same price, however, as both contain a troy ounce of gold (so the Eagle actually weighs more).

Australia's Nugget, launched shortly after the Eagle, is another 24 carat coin. As such it has enjoyed good sales in the Far East and, Shearson says, "looks to be stabilising at approximately 10 per cent of Western world coin market share. The UK Britannia, launched in 1987, shares with the Eagle the disadvantage of only 22 carat purity, and has the extra burden of 15 per cent value added tax on domestic sales. Nevertheless its sales have been respectable at home and in the *Far East.*

While the weakness of the bullion market has been holding back demand for gold coins the underlying platinum market provided a fertile base for one of the two new white metal coins launched last year. The other, however, fared less well.

The Australian Koala, manufactured by the Perth Mint and marketed by Goldcorp, was launched in September, just as a bull run in the platinum market was getting into gear. Within a month the price of the metal had risen from around $500 a troy ounce to more than $580, stimulating demand for the Koala to the point where Goldcorp was talking of its first year sales target of 100,000 ounces being exceeded by as much as 50 per cent. Even that prediction could prove to be conservative as within six months of the launch sales of the coin had reached 127,000 ounces.

The Royal Canadian Mint was less fortunate with the timing of the launch of its platinum Maple Leaf. It chose to come to the market on November 17, by which time the platinum price had just retreated below $580 and was set to fall $20 in the next two trading days. That fall was recouped quickly and the price moved above $600, but the wind had been taken out of the sails of the new Maple Leaf at the crucial time, and lost potential sales momentum proved difficult to regenerate.

Sales of the coin were not helped, moreover, when a second and more severe blow to the platinum price followed the Ford Motor Company's announcement in December that it was working on a platinum-free exhaust-cleaning catalyst.

By the end of March the mint was reporting total sales of platinum Maple Leafs at 64,200 ounces, a third of its original projection for first year sales. But only 5,700 ounces out of that total had been sold in the first three months of this year. Nevertheless, the mint described sales as "encouraging in the light of the uncertainty that investors have had towards physical platinum since late 1986.

"Original targets are likely to be met before the first full year of issue," it declared.

The launch of a silver Maple Leaf had accompanied that of the platinum coin, and considering the uninspiring performance of the silver market itself early sales of the coin appear respectable. By the end of March the total had reached just short of 2.2m ounces, with 1.13m ounces of that having come in the first quarter of 1989. The mint said sales in all markets had exceeded forecasts made when the coin was first launched.

Richard Mooney

CANADA

Fighting a tarnished image

THE Canadian gold mining industry's image was severely dented last year because a significant number of new mines failed to reach design performance and a few turned out to be total failures.

For example, at the Nickel Plate mine ore reserve estimates were substantially downgraded and production levels cut. At the Puffy Lake mine of Pioneer Metals in Manitoba the mineable ore failed to match expectations. Skyline Exploration's Johnny Mountain mine in north western British Columbia suffered milling problems and substantially downgraded reserve estimates.

Noramco closed its Golden Rose property permanently because of lack of reserves after less than a year in operation. After Western Mining bought Seabright's Beaver Dam property Western subsequently claimed reserves were far short of expectations and started litigation which still continues.

In many of these cases "over-optimism in translating reserves as outlined by geologists into ore that could be economically mined was compounded by undue haste to get into production," according to Ms Rhona O'Connell, precious metals analyst in Shearson Lehman Hutton's mining team.

Observers suggest that Canada's so-called "flow through" financing system created the environment in which these mishaps could occur. This was introduced by the government in 1983 to encourage exploration investment. The idea was that the government gave a 133 per cent tax write-off on funds invested in exploration.

The flow through scheme was changed at the beginning of this year by the Canadian Exploration Incentive Programme. About C$3bn was raised under the first scheme, nearly C$1bn in 1987 alone. The new arrangements are expected to provide about C$200m for mining exploration this year.

Mr George Milling-Stanley, author of Consolidated Gold Fields' annual review of the industry, reckons: "The relative ease with which development funds were available while the flow through financing system was in force in its original form might have led to some hasty decision making, accompanied by insufficient technical evaluation at the feasibility stage."

The technical failures did little to encourage a return by investors who deserted the gold mining companies after the October 1987 stock market crash. Canadian companies since then have found it nearly impossible to raise money through the equity markets. Consequently smaller companies without production suffered from shortages of funds while the larger, established producers enjoyed substantial cash flows. It was inevitable that numerous deals should be struck between the two groups.

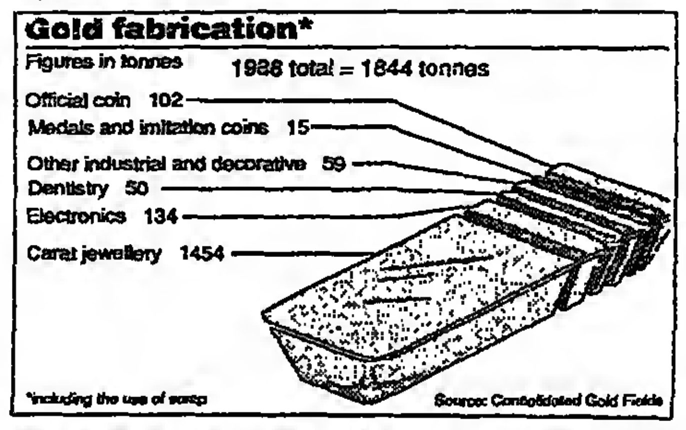
Typical examples are Echo Bay's investment in the Muscocho Group, MIM of Australia taking a share placement in Granges and Pegasus Gold's link-up with Pioneer Metals. The biggest corporate restructure during 1988 was the amalgamation of the companies in the Royex/Corona group to form Corona Inc which now is among the biggest gold companies in North America.

Another consequence of the technical failures was that Canada's gold production last year fell well below the more optimistic expectations. Production rose by 10 per cent in 1988 to 129 tonnes from 117 tonnes the year before, according to Consolidated Gold Fields. Many analysts had predicted output would rise by 30 tonnes or more.

The industry managed to keep its cash production costs constant in local currency terms but the stronger Canadian dollar caused costs to increase in terms of the US currency – from $201 an ounce in 1987 to $214.

Kenneth Gooding

Gold fabrication*



*including the use of scrap

Source: Consolidated Gold Fields

SOUTH AFRICA

Falling prices and rising labour costs hit mining profits

ON A winter night at the Tlokweng border post between Botswana and South Africa, 40-odd men spill out of a hired bus headed for South Africa's gold and platinum mines.

They are lined up in file by their apparent mentor, the bus driver, and left bemusedly looking at the green printed exit forms written in English on the one side and Tswana on the other. Even the old hands are bemused, as most are illiterate and able to write little more than their first names.

Years of working on South Africa's mines have provided them with few skills beyond those specifically needed to drill, blast and haul rock from underground. The scene is repeated daily across the sub-continent as 500,000 or so migrant black labourers employed in the mines start and end their contracts.

For anyone standing behind the migrants in the border crossing queue it is plain that the mining industry is changing slowly. The colour bar has officially been lifted and blacks, theoretically at any rate, can now fill supervisory positions previously reserved for whites. But the numbers of qualified blacks are tiny, so replacing highly-paid whites with black miners is unlikely to have any early effect on the industry's labour productivity.

In Johannesburg a few weeks ago Mr Gavin Relly, the chairman of the Anglo American mining house, spoke of the need for major technical developments over the next decade if South Africa is to develop new, large mines to replace those nearing the ends of their lives. But for the bus load of men being processed through the border at Tlokweng, it is hard to envisage what productive change is possible.

Rising costs may only be resolved with the next generation of mines. Two existing mines have shown the way by replacing men with machines

Less than 20 years ago, in 1970, South Africa's annual gold production peaked at fractionally more than 1,000 tonnes, representing about four fifths of the West's newly mined gold. By the end of 1988 annual production had dropped to a touch above 619 tonnes, representing less than 40 per cent of the world's new mine production, and leaving the South African mines with the gloomy prospect of a further decline in 1989.

By the end of this year's first quarter the decline was threatening to be steeper than anyone had envisaged. Falling gold prices had left about a dozen mines unable to cover operating costs and, as bullion went into a spiral in response to the strong dollar in May, the number of loss-making mines increased to almost 20 accompanied by warnings from employers that between 200,000 and 300,000 jobs could be at risk.

The number of loss-making mines has now increased to about 20 accompanied by warnings that up to 300,000 jobs could be at risk

Few analysts believe any mines will close even though in May two – East Rand Proprietary Mines (ERPM) and Durban Deep – warned of imminent closure unless the government provided financial help to cover losses. And though the cabinet failed to give a quick and unequivocal answer to the call for help, there were several good reasons for expecting some form of assistance to keep mines in operation.

The first is past experience. The state subsidised marginal mines during the 1970s and then recovered more in taxes from them when the gold price boomed in the late 1970s and early 1980s. It is a matter of faith in South Africa that gold will boom again, and that faith extends to the ranks of a government concerned that mine closures could be permanent. Apart from anything else mine closures carry the political risk of increased unemployment.

The second is South Africa's international debt position. Last year gold provided 40 per cent of Pretoria's R51bn total exports and, in February this year, Dr Gerhard de Kock, the governor of the Reserve Bank, estimated an average gold price of $400 per ounce was needed if year-end gold and foreign reserves were to be adequate to pay debt maturing in 1990 and 1991.

At the $360 price prevailing in mid-June debt repayments are already in question, and there is no room for the Reserve Bank to factor lower physical gold production into its forex planning. Unlike the platinum mines, which exploit shallow, evenly-dipping and practically un-faulted ore bodies, South Africa's gold mines have to cope with deep, heavily-faulted, changeable ore.

Platinum mines can mechanise comparatively easily – there is limited scope for replacing men with machines on the gold reefs. This is a crucial consideration as labour accounts for one third of the gold industry's operating costs. And as unionised black miners win wage awards designed to redress years of exploitation, mining profits will continue to be squeezed between rising costs, steadily falling ore grades and the gold price.

Gencor, the second largest mining house, has responded to the profit squeeze by cutting ore production at its marginal mines. It is concentrating on exploiting comparatively small reserves of profitable, higher-grade ore even though this expedient is likely to shorten the mines' lives. There has been some retrenchment and management is determined that when higher gold prices allow sub-marginal ore to be mined again, production increases will not be accompanied by re-hiring.

Freegold, the world's largest gold mine, has responded to narrower profits by shelving capital spending plans. Along with other mines in the Anglo American group it has considered closing unprofitable shafts and reducing wage differentials between richer and poorer mines and shafts. That sort of proposal does not go down well with the all-black National Union of Mineworkers (NUM), which is still recovering from the massive round of sackings which ended 1987's three-week wage strike.

This year the NUM entered annual wage talks with demands which would have doubled the wages of the industry's lowest-paid. In May white miners settled for a 13.5 per cent increase which did not match inflation. However, as black wage talks progressed in June the NUM seemed unlikely to accept any offer which did not exceed inflation.

Few believe any mines will close even though in May two warned of imminent closure unless the government provided financial help

The problem of rising operating costs may only be resolved with the next generation of mines. Two existing mines – Western Areas and Randfontein – have shown the way by replacing men with mechanised equipment underground, though on a scale limited by geology. New mines likely to be established during the next decade in the Potchefstroom Gap (described by Mr Relly as "a great gold-field") and in the Orange Free State will have to be capital intensive.

Jim Jones

Kenneth Gooding on the many obstacles facing the mining industry in Australia

Celebratory year loses its fizz

GOLD miners as a breed tend to be cheerful and optimistic. But an uncharacteristic atmosphere of gloom has settled on much of Australia's gold mining industry.

It is not just the fact that tha fall in the gold price hurt Australian companies more than their rivals in North America, a phenomenon caused by the relative strength of the Australian dollar against its US counterpart. The price fell during 1988 from A$650 to A$470 an ounce.

It is not just because costs are rising as mines go deeper and the ores become more difficult and expensive to treat.

It is not just because literally hundreds of small companies which raised several million dollars each during the stock market boom are now running out of cash and have nowhere to turn for more.

It is not just because the federal government intends in 1991 to remove the industry's exemption from payment of corporation tax – a move which, according to some estimates, will make about 20 per cent of Australia'a existing gold ore reserves uneconomic.

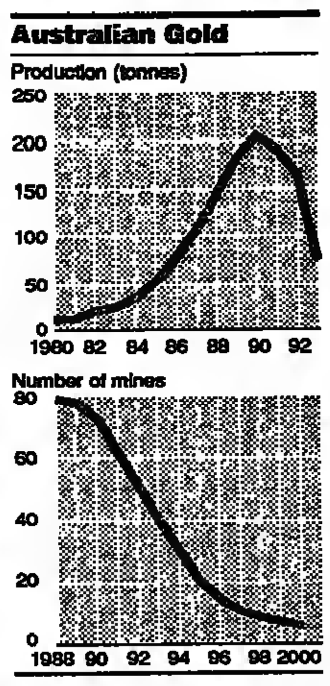
It is a combination of all these factors which has taken the gloss of what should have been a celebratory year for the industry.

Australia's gold output last year jumped from 111 tonnes to 152 tonnes, easily surpassing the record 119 tonnes which had stood since 1903 during the country's first gold rush. Australia is now ranked third among the non-Communist world's gold producing countries, behind South Africa (621 tonnes a year) and the US (205.3 tonnes).

Most of last year's advance came from increased production at existing mines – new mines accounted for only 14 tonnes of last year's output – and Western Australia continued to account for the lion's share of the total with just over 100 tonnes.

This incinded ontput from Boddington, which became the country's biggest single producer with nearly nine tonnes. Newmont's Telfer mine ranked second and Pancontinental's Kidston property in Queensland was third, according to Consolidated Gold Fields' analysis of Australian activity.

More than 20 new mines were commissioned during the year. Among them in Western Australia were Alcoa of Australia's Hedges deposit (with production of more than three tonnes a year), Grants Patch Mining's Peak Hill and Sonthern Resources' Golden Kilometre.



Elsewhere in the country, Elders Resources opened Starra in Queensland and Western Mining started production at Goodall in the Northern Territory. Output from southern Australia is set to rise rapidly now that Western Mining has brought the Olympic Dam project into production with gold production destined to rise to an annual three tonnes.

This year already has seen the start of production at Australian Consolidated Minerals' Big Bell in Western Australia. Many more mines are due to open during 1989 inclnding the ambitious "big pit" in Kalgoorlie which links a number of properties along the so-called "golden mile" and is a joint veoture between North Kalgurli Mines and Homestake Gold of Australia.

Australia's gold ontput, which has rocketted from only 17 tonnes in 1980, is set to rise again this year and next, according to the country's Burean of Federal Resources. It suggests production will reach 202 tonnes this year and peak at 220 tonnes in 1990-91.

From then on, witb tbe impact of the corporation tax imposition and various other factors taking effect, output is expected by the hureau to fall sharply – but it is unlikely to go below an annual 80 tonnes.

The bureau assumes in its forecasts that 40 new mines will come into production but that 130 of the 170 mines now operating will close because of the exhaustion of economically recoverable resources. It does not allow for future gold discoveries.

Mr Dick Dodson of the bureau, says that the level of Australia's gold output will depend partly on a favourable world gold price, partly on continued advances in mining and treatment technology to redoce costs, but above all on the success of exploration efforts.

One important factor currently driving up Australian gold ontput is tbe government's announcement in May 1988 that it planned to tax gold mining profits for the first time since the 1920s, but not until the begining of 1991.

Gold income is to be taxed at the corporate rate which has been reduced from 49 to 39 per cent. The effective rate for gold miners is expected to be much lower than this once the treatment of capital expenditure allowances is finalised.

The combination of a low gold price and the threat of corporatioo tax, has led to a oumber of exploration cutbacks by companies such as BHP Gold and Western Mining, while others, like Kidston Gold Mines, are increasing cnt-off grades of their ore deposits in order to increase production before the tax comes into operation.

This is bad news for Australia. To start with, so-called "higb-grading" – removing the best-quality ore first – is inconsisteot with getting the best out of any type of mine. Once the better grades are removed the marginal operating costs for the remaining reserves increase dramatically and can lead to the premature closure of a mine.

Mr Lauchlin McIntosh, executive director of tha Australian Mining Industry Council, suggests that "yon can't effectively high-grade a big mine." But he says: "No doubt (the imposition of corporation tax) will result in some gold which otherwise would have been recovered being left in the ground. It is a disincentive to exploration and development of new mines."

Mr Neil Herriman, CRA's exploration director, saya exploration activity will fall to a low point in the mid-1990s because of the loss of speculative interest in gold mining shares, the impact of production from recent discoveries as well as the low gold price.

"The exploration industry will undergo a period of rationalisation, with many companies falling by the wayside," he says.

The worst effects of the low gold price have been eased for many companies by their forward sales programmes – a form of insurance pioneered hy the Australian industry. These forward sales have locked in very high rates of profitability and made some companies' output impervious to the vagaries of the market price of gold.

However, the cost of getting gold out of the ground is rising fast. According to Consolidated Gold Fields' latest gold market review, the average cash operating costs of Australia's mines rose from $212 in 1987 to $238 last year.

This is because many producers started by treating the softer and more amenable oxide ores. The mines have now deepened and the unweathered and harder sulphide ores have become exposed. This not only pushes up workiog costs – some mines are experiencing cost increases of up to 20 per cent because they must use more drill and blast tecbniques in the barder ores – but sulphide ores need a great deal of additional processing to liberate the gold.

Consequeotly, according to Mr Peter Walker, managing director of Dominioo Mining, in the next 10 years the Australian industry will be driven much more stroogly by costs than in the 1980s.

He says: "The increase in mining and processing complexity will have an inflatioo-ary effect oo the cost structure which will only be mitigated hy technical improvemeots. Only those compaoies wlth very good technical depth and breadth will be equipped to handle these problems and it will be much more difficult for new companies to joio the ranks of producers."

Many Australian gold mines have reached the stage where they must go underground or close down but Mr Walker believes the trend will develop more slowly than geoerally expected because of the technical difficulties – and because of the problems of finding qualified employees.

Worker melting down gold jewellery at Hatton Garden, London

UNITED STATES

Goldstrike reflects sector's most ambitious undertaking

TO understand the sheer scale of activity which has enabled the US to more than double gold output since 1985 you need look no further than the plans American Barrick Resources has for its Goldstrike mine on the Carling Trend in Nevada.

Using 40 cubic-yard shovels capable of moving 90 tonnes of ore and waste material in one lift, American Barrick intends to excavate a huge open-pit mine, 1,500 feet deep, 7,000 feet long and 4,000 feet wide.

Most of the material will be moved by 190-tonne electric trucks. At least 27 of these monsters will be on site by the end of this year and another 13 will be needed before the operation reaches full capacity.

"We are literally moving a mountain here," says Mr John McDonough, Goldstrike mine manager.

At full capacity the mining rate will have increased from 38m to 100m tonnes a year and the ore will be milled at the rate of 6,000 to 12,500 tonnes a day. This will increase Goldstrike's gold output from 115,000 troy ounces last year to about 900,000 by 1992 and to 1m ounces by the mid-1990s – making it the biggest gold mine outside South Africa.

"It is perhaps the most impressive project in North American gold mining today," according to Ms Rhona O'Connell, precious metals specialist in the Shearson Lehman Hutton mining team.

American Barrick, a Canadian company, has at least

It is perhaps the most impressive project in North American gold mining today

12m ounces of gold to harvest at Goldstrike and it is in a hurry. In the early days, because of the huge quantity of waste material to be shifted, the cash cost of Goldstrike's production will be about $250 an ounce. But over the life of the development programme the cost will average between $190 and $195 an ounce, according to the company.

It will spend about $365m over the next four years on the project and its innovative techniques do not stop at its mining methods. For example, finance was raised by way of a 1.05m gold loan facility – the biggest yet reported – underwritten by the Union Bank of Switzerland, Westpac Banking Corp., and the Royal Bank of Canada. The first 750,000 ounces were drawn down and sold at $418 an ounce.

At the other end of the process, Goldstrike's deep gold is locked up, not in oxide ore like the metal near the surface, but in refractory sulphide ore which will need to be pre-oxidised before it will release its precious metal. Barrick will use autoclave units which only recently began to appear on the US gold scene. These units "cook" the ores at high temperatures and high pressures to oxidise them.

American Barrick has but a small part of the land on the Carlin Trend. It is surrounded by a massive, 380 square mile, property owned by Newmont Gold, the Newmont Mining subsidiary.

The first mine in the Carlin area was opened in 1907 but most mines closed either during the Second World War or when the gold price was fixed at $35 an ounce during the 1950s and 1960s.

New technology and a better understanding of how to mine low-grade ores enabled Newmont to develop the Carlin mine, which opened in 1965. It was also able to build a large land position around Carlin.

In 1988 Nevada accounted for more than half the 205.3 tonnes of gold produced in the US. Newmont has been at the centre of that expansion. In 1985 it produced 319,000 ounces from the Carlin Trend. Production should reach 1.4m ounces this year from three areas, each with its own mill facilities and leach pads.

The Nevada gold rush has created its own difficulties. For example, in about one year Newmont expanded its workforce from 700 to 1,900 and, according to Mr Peter Philip, Newmont Gold's president, "there isn't room in town for more people." Other companies are prospecting in the area and the little town of Carlin and the bigger one, Elko, the third-largest in Nevada, simply cannot cope.

Newmont has spent $27m in providing accommodation – from mobile homes to apartment blocks – money it hopes to get back because it wants to quit the real estate business as soon as possible.

The giant 190-tonne electric trucks at the Goldstrike mine in Nevada. At least 27 of the vehicles will be on site by December

American Barrick, to help alleviate the difficulty, bought a 55-acre site in Elko and has arranged for 199 homes to be built there. These are being offered to employees at between $15,000 and $16,000 below current market prices. Mine manager Mr McDonough says that this project should not only relieve some of the housing shortage but it might also return Elko's vastly inflated property prices nearer to normality.

The intense activity in Nevada has continued to spill out into most of the old gold producing areas in the western states. Exploration and development has built up in Idaho, Montana, Washington, South Dakota, Utah, Colorado and Arizona.

Environmental issues – particularly the gold industry's practice of leaching the metal from ore by using a weak solution of cyanide sprayed onto material piled in the open on plastic sheets – has inhibited growth in California and development has not matched the state's geological potential.

According to Consolidated Gold Fields' annual review of the gold market, the most important new mine to be brought into production last year was far away from the main gold mining areas – the Ridgeway open pit in South Carolina, jointly owned by BP Minerals (currently being acquired by the RTZ Corporation) and *Galactic Resources*. This is scheduled to produce 160,000 ounces in 1989.

Major developments announced for this year include Echo Bay's Cove operation and Bond International Gold's Bullfrog mine, both in Nevada and each scheduled to produce about 225,000 ounces of gold a year. Galactic Resources plans to develop the Crone Hill deposit in Oregon at an annual production rate of more than 160,000 ounces.

Ms O'Connell of Shearson Lehman points out that prospects in hand will ensure a good rate of production growth in the US into the early 1990s. She adds: "Although there is nothing on the horizon to match Goldstrike or the massive development of Newmont Gold's Carlin operations, the prospects for new discoveries in the US are still excellent."

Kenneth Gooding

FUTURES

Bear market looking for uplift

THE PAST year has not been a good one for the gold futures market. The glitter has gone from gold as volatility – an essential ingredient for a well-functioning futures market – has retreated in advance of routinely dull pricing.

The lack of any strong price swings has meant doom and gloom for the US's premier gold futures market and traders on New York's Commodity Exchange (Comex) are facing difficult times. The last year has seen gold prices at their lowest levels of volatility virtually since the start of Comex gold futures trading in 1975.

Comex's gold futures contract followed the ending of the gold standard in 1971, and the removal of restrictions on personal gold ownership in the US. Since then, gold futures, and its counterpart options contract, have grown into important hedging tools for gold producers and speculative instruments for investors.

While the heart of the physical bullion trade is still rooted in London where the London Metal Exchange conducts its daily price "fix," New York is recognised as a centre for hedging and speculation.

As gold prices lurched back and forth and the futures price rocketed from its record low of $101 a troy ounce in mid-1976 to a high of $875 a troy ounce just four years later, speculators rushed into futures as fast as they had fled to California to pan for gold a century before.

It is, however, this speculative element that has been missing from the past year's dismal market. Gold has ploughed a deep rut and much speculative money has been enticed away from Comex's gold futures into busier contracts.

By the same token, many of the exchange's independent "locals" – traders who trade for their own account – have been lured out of metals into the pell-mell of the New York Mercantile Exchange's adjacent crude oil futures pits.

"The level of professional activity in Comex gold is not as broad as it used to be," laments Mr Richard Levine at Elders Futures in New York. "There is still commercial business, but there are many days when that's all there is."

In a bear market – gold's fate for the past year – futures activity tends to contract. Despite a dropping off in speculative interest in gold, producers have been turning more to the futures market in recent years and this has kept trading volume steady on the exchange. Gold futures volume remains strong at around 900,000 contracts a month, which is almost 50,000 lots higher than in 1988.

Futures trading has grown exponentially since the inception of Comex's contract in the mid-1970s. In its first year of trading, Comex gold averaged 34,000 lots a month and now the amount of gold traded on the exchange is around 20 times greater than mine output in the Western world.

A recent development that has kept any excitement out of the gold futures market has been the increasing use of gold loans by producers. Mining companies will often borrow money from banks on the strength of gold reserves and assets they own. Gold loans are normally based on a future price for the gold that the mining company will produce. In this way they eliminate much of the risk and lock in profit.

So far, some 20 to 25 per cent of annual world gold output is secured by loans and this figure has been increasing in recent years. "Gold loans have been weighing very heavily on the market," says a Comex gold trader. "Recently every time the gold price moved up the producers rushed in to sell forward.

News of gold loans is enough to have a negative effect on futures as investors believe loans will release more metal onto the market. However, gold loans have not been the only factor depressing the futures market. Gold futures have increasingly become uncoupled from their traditional role as a hedge against inflation and, as interest rates have risen, the bond market has offered better returns.

With Treasury bond yields at 8.5 per cent, gold would have to rise by $35 a year to compete, according to Mr Levine. On top of an attractive bond market, investors have also faced a strong dollar, which has moved them to sell gold in order to buy dollars. Recent reverses in the value of the dollar have injected a little strength into gold futures.

Mr John Hanemann, an independent trader at Comex, who is also chairman of the exchange, points to what a tough market he has faced as a trader over the past year. "We've been sitting out there, watching everything else move and whatever has moved the gold market in the past, now has the opposite effect."

He explains how he watched in amazement as crude oil almost doubled in price and gold dropped by $40. "Now, that should have set them buying gold, as it's an indication of inflation." He believes that the past six months have seen the least amount of market activity by speculators in 10 years.

However, gold may have reached a bottom and the coming months may start to look rosier for futures traders. Many analysts believe the gold price has started a slow ascent and will continue to rally over the next nine months to a year.

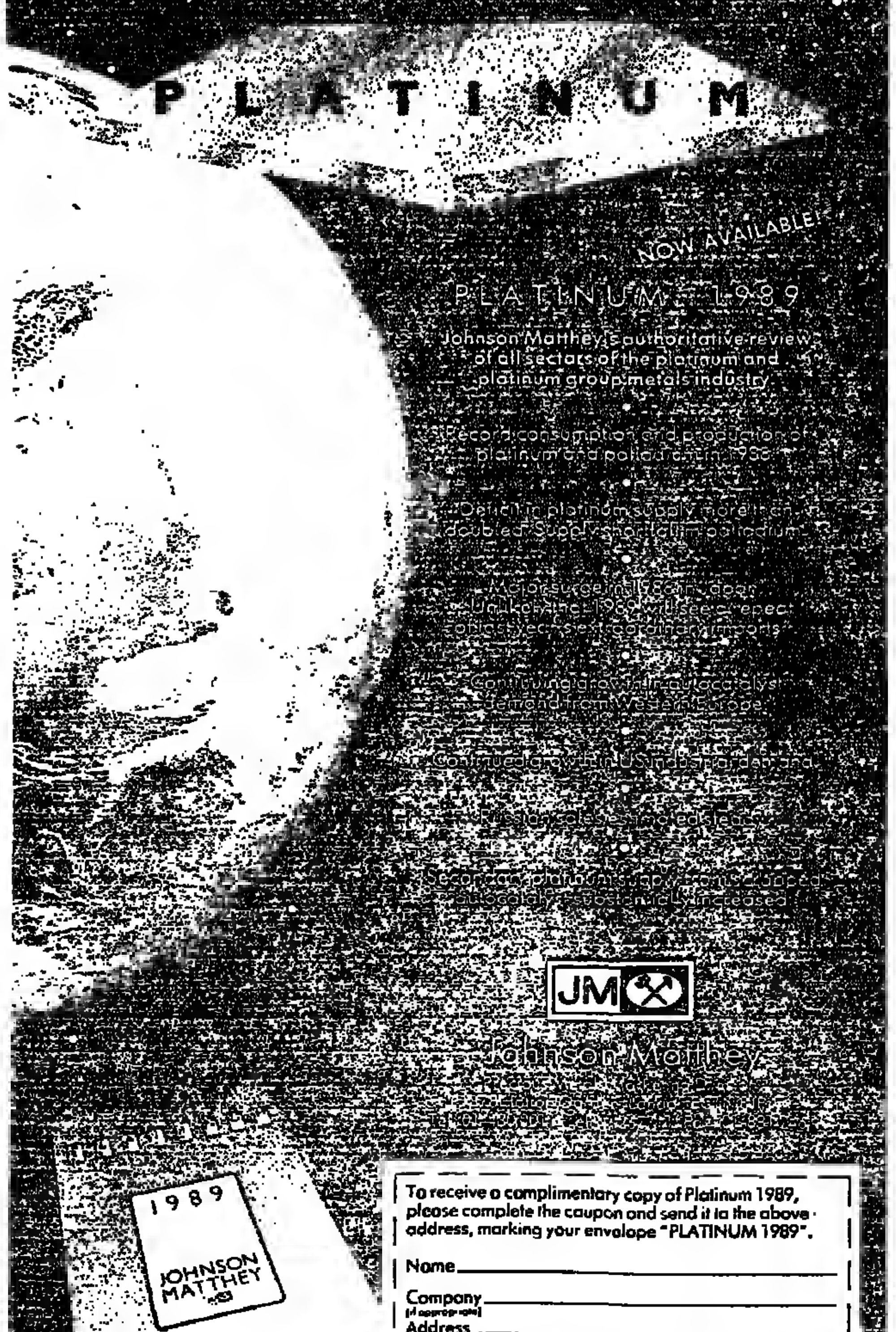
"We say buy gold, and everyone thinks we're mad," says Mr Jeff Christian of Christian, Podleska and van Musschenbroek (CPM). "But we're in a very quiet period and by the end of the year the trend may actually have turned."

Mr Christian's analysis is, however, bad news for futures traders as he expects gold prices to rise slowly and steadily without the volatility that is their lifeblood. A few futures traders are hopeful: "Until last week, you couldn't find a bull in town and now there are a few bulls, but still a lot of bears," said a Comex local.

With gold futures as unexciting as they are, there has been little push among exchanges to extend trading hours for gold. The Chicago Board of Trade tried to capture business from the Far East when it launched gold futures trading in its evening session two years ago. However, interest faded and the contract is still listed but does not trade at all at night.

Comex has been in no hurry to extend its own hours, but the exchange is looking at joining the 24-hour electronic marketplace being set up by Chicago's two leading futures exchanges. "Gold is traded for 24 hours in the bullion market and we have to protect our base," Mr Hanemann says. But the exchange will have to wait until it sees more business coming in or, by spreading the same amount of activity over a longer period of time, it could make the market even duller.

Deborah Hargreaves



Industry highlights of 1988

THE main features of the gold market in 1988, according to Consolidated Gold Fields' authoritative annual survey, were as follows:

- The total supply of gold to the non-Communist private sector fell by 8 per cent to 1,850 tonnes (2,018 tonnes in 1987)
- Mine production rose from 1,382 tonnes in 1987 to a record 1,538 tonnes
- Net sales from the Communist bloc fell by 15 per cent to 258 tonnes and supplies of gold scrap were 20 per cent lower at 324 tonnes
- Central banks and other parts of the official sector emerged as substantial net purchasers of gold, reducing the supply to the private sector by 270 tonnes. This compares with net purchases of 72 tonnes in 1987
- Fabrication demand rose by 16 per cent to a record 1,844 tonnes (1,596 tonnes in 1987), accounting for virtually all conventional supply
- Jewellery fabrication jumped by almost 30 per cent to an unprecedented level of 1,484 tonnes compared with 1,152 tonnes the previous year
- In line with the growth in economic activity, gold offtake in industrial applications rose to 258 tonnes (244 tonnes in 1987), the highest since 1979
- Gold used in the minting of official coins fell to 139 tonnes. Sales of official coins halved to 102 tonnes
- Identified bar hoarding outside Europe and North America soared to 474 tonnes (268 tonnes in 1987), easily exceeding the highest total previously recorded
- Total demand exceeded conventional supply by 468 tonnes compared with an excess of 154 tonnes in 1987. This shortfall was met by a significant increase in gold loans and forward selling by mining companies as well as some disinvestment in Europe and North America
- The gold price averaged $436.83 per ounce last year compared with $446.53 in 1987

Kenneth Gooding

Yellow metal's hard times

Contioued from Page 1

In 1988 this "official sector" was a net buyer of gold – to the tune of 270 tonnes – which helped to support the price in spite of the absence of private investors.

But, as Consolidated Gold Fields' review points out, there is a growing debate between central bankers in the industrialised countries of Western Europe and North America and those in the developing nations, particularly in the Far East, about the place of gold in their reserves.

The first group often holds more than half its reserves in gold and is begining to feel the need for greater flexibility to operate in foreign exchange markets.

It is thinking along these lines which led to the big gold sales by Canada throughout the 1980s, including 43 tonnes last year, and the disposal by Belgium in February and March this year of 127 tonnes or about 10 per cent of its gold reserves.

In contrast, Taiwan was the leading buyer of gold, adding 181 tonnes to its reserves last year on top of the 65 tonnes bought in 1987. This helped to raise the gold content of Taiwan's reserves to about 8 per cent.

Taiwan's central bank has now stopped buying gold. This will certainly cut the support given by the official sector this year, possibly by more than half.

This is one of the factors which have brought analysts to a consensus that the gold price in US dollar terms is likely to drop a little more in 1989 before it moves back up again.

Where does this leave the miners who, because of the nature of their operations, are alway slow to turn off supplies when the price indicates that is what is needed?

According to Ms O'Connell of Shearson, in theory a $350 an ounce price threatens mines producing an annual 400 tonnes of gold. Some 50 tonnes of South African output is loss-making at $400 an ounce.

For many North American and Australian producers the picture is not as menacing as it would appear at first glance because a proportion of their production is already hedged.

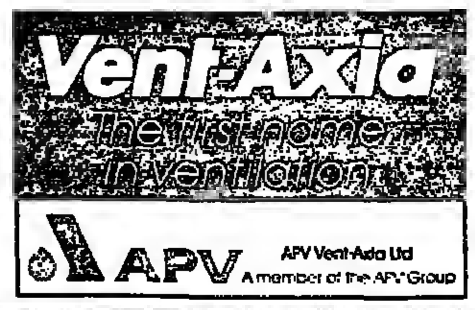
But some South African mines, faced with high and increasing costs, are already at risk. East Rand Proprietary Mines and Durban Deep need government financial assistance or must close, according to Rand Mines, the managers.

Mr Nichols suggests that 10 or 11 South African mines accounting for between 7 and 12 per cent of production operated at a loss in the first quarter of this year.

However, those who insist on looking on the bright side point out that the first 200 tonnes of South Africa's 620 tonnes gold production is viable at a gold price below $220 an ounce.

And, even if the gold price was to sink to about $300 an ounce – about the lowest level currently predicted by analysts – most of the non-Communist world's major mines would remain profitable.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday June 26 1989



INSIDE

The price of cheap exports

International trade flows between industrialised countries have been influenced more and more by factors other than price, such as design, quality, delivery and service, argues Christopher Lorenz in the Business Column. Yet British industry persists in trying to export cheap and cheerful goods, while importing increasingly high quality ones. Page 34

Gold Fields throws stones at Hanson

Consolidated Gold Fields, the diversified UK mining group, is planning to make the value of ARC, its aggregates subsidiary, a key plank of its defence against Hanson's £3.1bn bid. Mr Rudolph Agnew, Gold Fields chairman, intends to focus on ARC in his attempts to force Hanson to increase its offer of £14.30 per share. Vanessa Houlder reports. Page 21

Gateway alters M&A story line

Whether successful or not, the intervention of Wasserstein Perella, the US corporate finance specialists, into the takeover battle for Britain's Gateway stores group could signal important changes for mergers and acquisitions finance in the UK. The offer led by Bruce Wasserstein (left) is ostensibly similar to that made by former Gateway managers under the name Isosceles. Both deals have significant amounts of mezzanine debt bridging the gap between the senior loans and equity finance. But there are important differences, explains Stephen Fidler. Page 19

Market Statistics

Companies in this section

The Changing of the Guard

By Martin Wolf

The old order of the post-war era is changing. The US – the ostensible victor in the East-West conflict – is having almost as much difficulty in adjusting to the new world as its Soviet rival. Many Americans now see the world economy not as the arena of victory for the market economies, but as the place of their own impending defeat.

The US remains by far the most important country in the world, with an economy accounting for a quarter of gross world product, roughly equal to that of the EC as a whole. Yet with the lowest investment rate in the developed world (gross investment per head in Japan being almost double the American level), further relative economic decline would seem inevitable. Neither big enough to dominate, nor small enough to be ignored, the next decade is likely to be difficult for the US (and so for everyone else).

The implications were brought home by participation last April in a meeting of the American "great and good" organised by the American Assembly, a part of Columbia University. After fierce debate, the group came to the logical recommendation of "shared leadership". But, however enlightened many individual Americans may remain, the US mood is likely to remain aggrieved, aggressive, self-regarding and short-sighted.

Meanwhile, Japan is obsessed with its bilateral relationship with the US and, by its nature, is unlikely to provide global leadership.

Step forward the European Community. The EC is an economic superpower, but only in trade can it speak with a single

Japan is obsessed with bilateral relationship with US

voice. It is a voice worth listening to, since the EC accounts for 20 per cent of world trade (excluding all internal trade), significantly more than the US. The coincidence of the 1992 programme for completing the internal market with the Uruguay round of multilateral trade negotiations (to finish in 1990) guarantees that the EC will have an attentive audience.

The nature of both the opportunity and the challenge became somewhat clearer during a workshop on reform of the multi-fibre arrangement that I attended last week in Stockholm. If the Uruguay Round is to be more than a holding operation, it must bring two long-standing exceptions to Gatt rules – agriculture, and textiles and clothing, – and one new area – services – within the orbit of multilateral liberalisation.

Discussion in industrial countries has focused on the first and the last of these three issues, but for the poor of the world liberalisation of imports of textiles and clothing would be the most important single change in global trade policy.

Textiles and clothing were the ladder by which Japan and then Hong Kong, South Korea and Taiwan climbed out of poverty.

In 1987 the clothing exports of the three principal newly industrialising countries (NICs) totalled $23bn, while those of all other Asian developing countries (including China and India) totalled only a little over $11bn.

Within the existing structure of quotas by product, by origin and by destination, the latter cannot hope to replace the former, even though the comparative advantage of the Asian NICs is fading away, as real wages in their economies soar at up to 10 per cent a year.

The importance of liberalising textiles and clothing in the course of the Uruguay Round was even recognised in the text of the mid-term review finally agreed in April. This commits the contracting parties to "reach agreement within the time-frame of the Uruguay Round on modalities for the integration of this sector into Gatt".

The political obstacles to liberalisation by the EC have diminished. In particular, employment in textiles and clothing has become much less significant, especially in the countries of northern Europe.

In Germany, total employment in textiles and clothing fell by 47 per cent between 1972 and 1988. The corresponding declines in France and the UK were still greater, at 53 and 55 per cent, respectively. So the good news is that, with protection of textiles and clothing now essentially a conflict between the EC's frost-belt and sunbelt, the Commission should be able to gain sufficient support for a phased elimination of the paraphernalia of the multi-fibre arrangement (Mfa) during the course of the 1990s.

But there is bad news as well. The Mfa is a form of "emergency protection", though this particu-

The EC's voice is one that is worth listening to

lar "emergency" has lasted almost thirty years. The question is what system of emergency protection within the Gatt should replace the Mfa. The EC has long demanded the right to introduce emergency protection selectively, that is on a discriminatory basis. Its argument has been that, without selectivity, established suppliers would be unfairly inconvenienced by the need to accommodate imports from just a few, fiercely competitive, new suppliers.

Under discriminatory protection, the accommodation of highly competitive new exports is seen not as the *raison d'etre* of trade, but as its bane. Similarly, with discriminatory protection, newcomers and small countries are bound to be victimised (as can be seen, for example, in the uniquely favourable treatment accorded to Chinese textile exports during the last ten years). If legitimate emergency protection can be discriminatory, the Mfa will have perished, but only by being absorbed within the Gatt.

With the US most unlikely to lead in textiles and clothing, the task falls to the EC (though it would, in fact, be lagging behind Sweden's plan to eliminate Mfa restraints in 1991). So the EC should commit itself to the liberalisation of Mfa restraints during the 1990s, irrespective of what the US does, while abandoning its long-standing quest for the legitimisation of discriminatory, emergency protection.

A Commission that has redefined reciprocity in financial services in a much more liberal direction and proposed the ending of quantitative restraints on imports of Japanese cars, should be able to rise to this challenge as well.

Two heads are better than one

Lisa Wood explains why Bass has split its pubs and brewing businesses

An ambitious pan-European initiative, or a defensive move designed to minimise damage to its threatened domestic patch?

Both views are possible of the restructuring announced on Friday by Bass, Britain's biggest brewer, which is dividing its brewing and pubs businesses into two separate operating divisions.

The official explanation from the company was that the move would leave it better positioned to expand on the Continent. "The Continental European market is more distinctively divided into brewing and retailing operations than we are in the UK," said Mr Ian Prosser, chairman of Bass. "We are restructuring our UK businesses so we are able to focus on those areas outside the UK."

It is a respectable – if highly ambitious – long-term objective. Bass at present sells very few of its brands overseas and like most other British brewers – with the exception of Whitbread – has made little headway in developing retail outlets in the European Community.

But 1992, and the completion of the EC internal market reforms, is three years off and Bass has a more pressing and immediate problem which the restructuring also addresses: the upheaval facing the British brewing industry following the Monopolies and Mergers Commission's report on the supply of beer.

And the immediate response of City analysts was that Bass's move would place the brewer in a good position to cope with whatever the Government is about to throw at the industry.

Within the next month Lord Young, the Trade and Industry Secretary, is expected to announce what measures he has finally decided to impose upon the brewers after scrutinising the Monopolies report and holding subsequent discussions with the outraged industry.

The MMC recommended that no brewer should be allowed to own more than 2,000 pubs, and it forecast that this would mean the disposal of up to 22,000 pubs by the major brewers.

A couple of options are currently being mulled over by Lord Young. He could follow the MMC's recommendations. In such circumstances, several of the big brewers, notably Grand Metropolitan, Whitbread and Allied Lyons, would probably opt to be retailers, because most of them only licence their top brands and the greatest profits growth lies in their pub sales.

The choice would be more complicated for Bass, which has by far the largest share of the UK beer market – 22 per cent plus – with strong brands such as Carling Black Label. It also has the largest estate of pubs.

However, Lord Young's preference seems to be to place a cap on the number of pubs that the big six brewers, including Bass, can "tie" – that is restrict to selling only the brewer's own brands.

The rest of their outlets would be free to take any brands of beer. This would allow greater competition and at the same time enable Lord Young to shake off backbench Tory fury over forced disposals.

The re-organisation announced by Bass on Friday would appear to structure the business in such as way that the company can respond quickly to the course Lord Young takes.

On the one hand, if Bass has to decide whether to be a brewer or retailer, it will have a clearer idea of its profit streams and it will be in a position to float off one or the other side as a separate company.

If Lord Young decides to cap the tie, Bass's separated brewing side will have a sharper focus and should be better placed to go out aggressively and seek to sell its brands in other brewers' pubs.

GrandMet, which owns Watneys, carried out a similar exercise a year ago – and carried it one step further by setting up a property division, as well as retail and brewing divisions. The property side is getting commercial rents from tenants who in the past have had lower rents in return for taking their brewer landlords products.

The Bass restructuring means that from October 1 the current brewing and pub retailing division will be divided into Bass Brewers and Bass Inns and Taverns. The existing division contributed £164.3m ($246m) of the group's £232.5m operating profits in the half year to April.

Bass Inns and Taverns will be responsible for the retail operation of all Bass's managed pubs together with the administration of and sales to all Bass's tenanted pubs.

Bass Brewers will be responsible for the wholesale and marketing of all Bass beer brands to both the on and off licensed trade, as well as controlling all beer production and distribution.

The shake-up is typical of Mr Prosser's pragmatic style. He led the brewing industry's defence during the Monopolies and Mergers Commission's two and a half year investigation.

But since the report came out, he has kept a low profile and has been busily working on how best Bass can exploit the opportunities being thrown up by the proposed changes.

Trevor Humphries

Ian Prosser, chairman of Bass: 'Continental market is more distinctly divided into brewing and retailing operations. We are restructuring our UK businesses so we are able to focus on those areas outside the UK.'

Over the past year Bass has been spending particularly heavily on promoting its brands and increased its share of the UK beer market. Carling Black Label, Britain's biggest selling beer brand, increased sales by 4 per cent and draught Bass by 7.6 per cent.

However, whatever the changes in the UK framework, the domestic market gives finite opportunities for growth and over the longer term Bass will be looking to Europe. Mr Leon Brittan, the EC competition commissioner, is currently looking at the so-called "block exemption" granted to European brewers in 1984, which enabled them to give loans in return for customers taking their brands.

If the system is not swept away in the immediate future, it is likely that it will be disbanded in 1997 when the current agreement runs out.

Many European brewers – who in the main do not own pubs – have protected their sales through the loans system. According to Mr Prosser, Bass would be well placed to exploit these opportunities, though, quick to score a propaganda point, he added that this was "provided Lord Young does not chop us off at the knees."

Economics Notebook

Peseta test for British EMS entry

THE ENTRY of the Spanish peseta into the exchange rate mechanism of the European Monetary System is good news for both opponents and supporters of full British membership of the EMS.

Regardless of what happens at this week's European Council meeting in Madrid, the British Government has effectively ruled out entry into the ERM until after the middle of 1990.

That is when the last exchange controls will be lifted in France and Italy and it is hoped that Britain's inflation rate will be substantially below its current 8.3 per cent level.

Spain's current economic situation is sufficiently similar to that of Britain to allow some useful conclusions to be drawn from its experiences in the ERM over the coming 12 months or so.

Leaving aside issues of sovereignty, the arguments for and against full EMS membership hinge on whether it would help the Government to get a better grip on inflation.

Mr Nigel Lawson, the UK Chancellor, believes that it would. Sir Alan Walters, the prime minister's economic adviser, has argued that putting sterling into the ERM could undermine the strict monetary policy needed to control inflation.

Sir Alan's case rests on the belief that Britain with its high inflation rate and high interest rates would become a magnet for foreign funds in a largely fixed exchange rate regime like the ERM.

The inflowing funds would cause interest rates to fall, undermining the Government's restrictive policy stance and exposing the country to the risk of another unwanted economic boom.

Spain is relevant to these two arguments because it, like Britain, is looking back on two years of very strong growth and making a concerted effort to get inflation under control.

Spain's economy grew last year by 5 per cent after 5.5 per cent in 1987. It is experiencing an investment boom: gross fixed investment grew by around 14 per cent in each of the past two years. Domestic demand is strong – up 8.5 per cent in 1987 and 6.9 per cent last year.

It is also has experienced a rapid deterioration in its trade and current account balance of payments position.

Despite large amounts of income from tourism, Spain's current account shifted from a $1.3bn (£867m) surplus in 1987 to a $3bn deficit last year.

Inflation – at 6.7 per cent in the year to April – is not as bad as in Britain. However, it is significantly worse than the 5.8 per cent rate recorded for the 12 months to last December.

As in Britain, the Spanish authorities have been trying to curb rising inflationary pressures with tight monetary policies.

At first sight the decision to put the peseta into the ERM from last Monday appeared to support Sir Alan's thesis. On its first day in the system, it soared to 2.54 per cent above its central rate against the D-mark despite $419m worth of intervention by the Bank of Spain.

Interest rates came under downward pressure as evidenced by a 2.5 percentage point drop in Euro-peseta rates to around 12 per cent.

It is hardly surprising that monetary officials in Britain, West Germany and elsewhere were heard to describe the Spanish move as "courageous" – an adjective which usually means foolish when translated out of "central bank speak".

By the end of the week, however, things were looking less dramatic.

By last Friday, the peseta had gained just under one per cent in value against the D-mark compared with the previous Friday's level.

It stood 1.95 per cent higher than its D-mark central rate and was therefore within the 2.25 per cent fluctuation margin which applies to all the currencies in the ERM except for the Italian lire and the peseta.

By the end of last week, some European monetary officials were suggesting that the peseta's present strength could be followed by weakness that could necessitate an eventual EMS currency realignment.

The Bundesbank could be expected to encourage such a development.

A realignment would take away some of the present euphoria in West German political circles about economic and monetary union in the EC.

The resulting upvaluation of the D-mark would assist West Germany's counter inflation policy and limit its huge trade surpluses with other European countries.

In its latest "Economic Outlook", the London Business School points out that the possibility of further exchange rate realignments in the EMS runs counter to Sir Alan's fear that any eventual British membership of the ERM would push British interest rates down to West German levels.

"Credibility takes time to build in foreign exchange markets as well as domestic markets," it said.

"Although the EMS constrains parity adjustments, it does not rule them out. It will take time for the UK to establish a reputation for being hard on its European Monetary System commitment and so the downward pressure on UK interest rates will take time to show up."

Peter Norman

THIS WEEK

BRITISH trade data for May and the return of industrial unrest to the UK will re-focus market attention on the pound and British interest rates this week.

Sterling put in a lacklustre performance in nervous trading last week and required Bank of England support.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a UK visible trade deficit of £2bn ($3bn) and a current account deficit of £1.6bn.

That compares with April's deficits of £2.16bn and £1.66bn respectively.

Any deficit significantly higher than the consensus forecast could increase pressure on the UK authorities for a further rise in bank base rates from their present 14 per cent level.

Traders and investors will also be keeping a wary eye on events at the European Council meeting in Madrid today and tomorrow for fear of a major row between Britain and its European Community partners over the Delors Committee report on economic and monetary union in the EC and the European Commission's plans for a social charter in the EC.

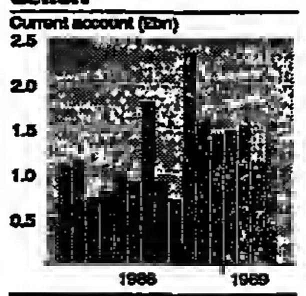
Industrial unrest will be a further unsettling factor in Britain with a second national rail strike planned for Wednesday and balloting due to take place among registered dock workers for a national dock strike.

Apart from Wednesday's release of leading indicators for May, where the MMS consensus forecast is for a 0.8 per cent decline, only minor US economic indicators are due to be published this week.

The dollar's fortunes will therefore depend crucially on whether the central banks decide to keep up the sales that helped push the dollar lower last week.

Markets could also be influenced during the week by trade and inflation data for May from Japan and West Germany and France's May trade figures, which are due on Thursday.

UK balance of payments deficit



Thursday's meeting of the Bundesbank's decision-making central council can be expected to keep interest rate jitters alive in Europe until near the end of the week.

On Thursday evening, the Organisation for Economic Cooperation and Development publishes its latest half yearly "Economic Outlook" which will look at policies and will forecast economic trends over the next 18 months in the world's 24 leading industrial nations.

Other events and statistics (with MMS International consensus in brackets) include:

Today: West German export-import prices for May.

Tomorrow: UK first quarter personal income, expenditure and savings ratio (4.1 per cent). Japanese industrial output May.

Wednesday: May sales of large Japanese stores. Japanese housing starts May.

Thursday: Final UK money supply May. US new home sales for May (-2 per cent). US unemployment claims for the week ended June 17.

Friday: US manufacturing orders for May (-2 per cent). Japanese consumer prices May (up 2.8 per cent). Japanese unemployment May. Japanese current account May.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Bulls break exchange-rate shackles

THE RALLY in the US credit markets has handed investors in long-term bonds a capital gain of 10 per cent in little more than a month. But judging from last Friday's performance, it has a way to go.

Reports on Friday from the Commerce Department, which showed a steep fall in orders for durable goods in May and slow consumer spending, gave the bulls all the evidence they wanted that the US economy is beginning to sputter.

The bond market gained new strength, with the Treasury 30-year bond adding 1½ percentage points in busy trading. Most remarkable of all, the bond market on Friday found, for the first time, strength to ignore the dollar exchange rate.

This not only bucked the trend of the bond rally, which began when the dollar soared on the foreign exchanges on May 11 and ran out of steam when the dollar weakened early in the week. It also confounded the many economists and traders who have been saying that the weakness in the dollar will prevent interest rates falling further.

On Friday the long bond was yielding the same at a yen/dollar exchange rate of Y139 as at the Y149 rate in the midst of the dollar booanza two weeks ago.

What has happened?

The key change has been a preseotiment bordering on certainty among economists that the US economy, after eight years aloft, is coming in for a soft landing. The unanimity is almost sinister.

According to Blue Chip Economic Indicators, a service which tracks market forecasts, the consensus is for inflation-adjusted increases in economic activity of just 1.3 per cent in the third quarter, 1.1 per cent in the fourth quarter and 1.5 per cent for 1990 as a whole.

At these economic growth rates it is hard to imagine inflation gaining a strong grip on the economy or eating into the returns from fixed-income investments.

In the past month the market has been presented with reports showing that employment is scarcely growing, retail sales are flat and housing markets are sloppy all over the US. The durable goods report seemed to suggest that manufacturing was going into a stall.

The Commerce Department reported that orders for durable goods ranging from aircraft to machine tools fell 4.2 per cent in May, or by \$5.4bn in value to \$124bn. The decline was the sharpest since last mid-summer.

Durable goods are a notoriously lumpy indicator. As recently as April orders were up by 3.2 per cent. And the drop in May would surely not have been so steep had aircraft manufacturers not been clogged with work at their production lines: orders for transportation equipment fell 9.4 per cent.

On its own, the durable goods report might have been enough to set off Friday's rally. But it was soon flanked by a report suggesting that US consumers, who has gone on spending long after economists had written them off, may finally be going to ground.

In its report the Commerce Department said that consumer income and spending rose just 0.3 per cent in May, or rather slower than the recent pace of inflation.

The weak spending figure was sharply lower than the 1.1 per cent increase in April but it is no surprise to the automobile manufacturers, who have thrashing away with seamless advertising and every type of incentive to lure reluctant buyers. That this is not working is shown in the latest figures from Detroit, which showed car sales tumbled 11 per cent in the 10 days to June 20.

The markets now believe the rise in interest and mortgage rates engineered by the Federal Reserve earlier this year have brought home to the US consumer just how indebted he is.

Mr David Jones, of Aubrey Lanston in New York, says: "I guess it's a mixture of tighter money and a heavy debt load. It's precisely what the Fed wanted."

The savings rate, which hit a rock-bottom 3.2 per cent of after-tax income during 1987, was back up at 5.3 per cent in May.

Many people are now convinced the Fed will ease the supply of money and credit. Faced with weak job growth at the begining of this month the central bank pushed the interbank lending rate down by a quarter of a point. But the markets are saying that unless it eases further, the Fed could have a recession on its hands. That the stock market does not fear a recession, as Friday's 50-point jump attests, is being ignored for the moment.

The Fed's main policy body is due to meet on July 5 and 6, and the market is banking on a move later in July taking Fed funds down by another quarter of a point, to 9¼ to 9⅜ per cent. It was this prospect that has strengthened the short and intermediate end of the bond market.

But the foreign exchange markets could easily prevent this happy outcome. The dollar fell precipitately on Friday in response to the weak economic reports, although it ended the day only half a yen down.

But it is not fanciful to suppose that the speculators, and the Japanese institutional investors, which drove the dollar to Y149 might not take it back down under Y130. The markets were badly rattled by an unsupported report that the governments of the US, West Germany and Japan are striving towards just this end.

A retreat by the dollar could have two disagreeable effects. It could hand foreign, and notably Japanese, investors in Treasuries a foreign-exchange loss that would wipe out the 10 per cent capital gain on the bonds and prompt a sell-off.

And it could provide the US economy with a stimulus that would make a Fed easing at best superfluous and at worst downright risky. Mr Robert Brusca, of Nikko Securities, says: "That's the question. At what point does a weak dollar start igniting inflation?"

James Buchan

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.62	9.19	9.63	9.89	6.27
Three-month Treasury bills	8.33	8.40	8.63	9.34	6.48
Six-month Treasury bills	8.38	8.39	8.85	9.59	6.91
Three-month prime CDs	9.20	9.30	9.55	10.12	6.77
30-day Commercial Paper	9.30	9.25	9.45	9.81	6.65
90-day Commercial Paper	9.15	9.00	9.33	9.82	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	105⅝	+½	8.27	8.37	8.72
20-year Treasury	109¼	+1⅜	8.28	8.38	8.73
30-year Treasury	107½	+1¼	8.19	8.30	8.70

Source: Salomon Bros (estimates).

Money supply: In the week ended June 12, M1 fell by \$6.6bn to \$788.5bn.

NRI TOKYO BOND INDEX

December 1983 = 100	22/6/89	Average yield (%)	Performance index: Last week	12 wks ago	26 wks ago
Overall	147.48	5.31	147.43	147.90	148.40
Government Bonds	147.32	5.13	149.27	148.29	149.65
Municipal Bonds	149.49	5.48	149.44	149.69	150.19
Govt.-guaranteed Bonds	150.58	5.53	150.61	150.63	151.10
Bank Debentures	141.44	5.33	141.37	141.67	141.36
Corporate Bonds	150.50	5.51	150.37	149.43	147.62
Yen-denom. Foreign Bonds	155.53	6.06	155.34	153.18	150.70
Government 10-year†	5.22		5.19	4.92	4.79

† Estimated par yield

Source: Nomura Research Institute

Nestlé obtains London listing

NESTLE will today become the first Swiss company to obtain a listing on London's International Stock Exchange since 1954. It is only the second Swiss firm to be listed there, writes Norma Cohen.

Last summer, during the foods group's successful bid for Rowntree of the UK, it indicated it would not seek a listing on the UK stock exchanges as it believed some requirements were too onerous.

But earlier this month Mr Reto Domeniconi, the company's finance director, said significant concessions had been won from the exchange on listing requirements.

UK GILTS

Crucial Spanish lessons for traders

THE UK gilt-edged market's remarkable lack of concern regarding almost any bad news – save a change in official funding policy – persisted last week, as il weathered with only a faint whimper further sterling vulnerability combined witb gathering bad news on the domestic wages front.

Bnt the market's upside potential, given tba dismal interest rate outlook, is also distinctly limited. One of the few sparks occasioning a decent move would be sign of a retuning of the prime ministerial Euro-antennae in Madrid this week.

It is, of course, highly unlikely Mrs Thatcher will pay her Spanish hosts the ultimate courtesy of following their cue and announcing an immediate place for sterling in the European Monetary System's exchange rate mecbanism, alongside last week's surprise new adherent, the peseta.

But the gilts market, locked Into its enforced fascination with sterling, could have been forgiven a quizzical glance at the experience of Spanish debt securities following EMS entry last week. Membership may be a distant prospect, but one with clearly important consequences for gilts.

True, the fortunes of tha peseta and Spanish bonds offer at best an incomplete prognosis for the possible fate of sterling, a leading reserve currency, and gilts. But broad parallels may be drawn.

First, the dimensions of the capital influx into Spain from last Monday onwards took bank dealing rooms – and, more pertinently, the central bank – by surprise. Average daily turnover figures were up by a factor of five or six, as investors rushed to take advantage of bonds offering exotic coupons tempered by quasi-D-Mark solidity. Bnt this is presumably small beer compared with the capital movements that would be occasioned from Frankfurt to London if sterling were to join the ERM.

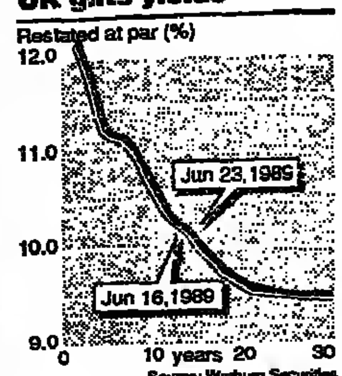
While the authorities may well be ruing the absence of foreign interest in sterling if tomorrow's trade figures fulfil the worst fears, they would be faced by an altogether bigger problem if the reverse happenned, and EMS entry opened the flood gates for incoming Continental capital.

As a recent paper by Warhnrg economists argues, Spain's short experience furnishes one of the few illustrations of the sort of destabilising effects the ERM could have – an argument Sir Alan Walters has used many times against membership, hitherto without much evidence.

While upward pressure on the exchange rate that snch flows would cause could be mitigated for a while by central bank intervention, only snbstantial interest rate cuts would do the trick in the end. This scenario has already been partly played out in Madrid last week.

Tha peaeta appreciated sharply against the D-Mark on Monday, although judicioua central bank intervention brought it back somewhat by the end of the week. But interest rates fell suhstantially across the yield curve.

UK gilts yields



Source: Warburg Securities

At the fortnightly auction of one-year Treasury bills yialds fell for the first time in some nine months. Yet Spain's domestic sltnation, as In Britain, requires relatively high rates.

To taka then the response at the long end of the gilts market to EMS entry, this would also presumably be quite dramatic. Tha prime positive effect – at first – would be to provide a pollcy framework that substantially buttressed both tha perceived commitment to bringing down inflation and also enhanced the ability to do so.

Much would be talked of the salutary French experieoce where the differential between domestic inflation and that in Germany narrowed from 6.3 per cent in 1983 lo 1.4 per cent five years later, although it is far from clear this magic was worked by the EMS alone.

Then, as initial enthusiasm cooled, gilts practitioners would begin to focus instead on the deleterious effect of lower interest rates on inflationary prospects. Domestic economic conditions would need to be very different if the downwards interest rate adjustment were to endure.

Probably the ideal news from Madrid this week – for the gilts market and indeed the rest of the economy – would be a commitment to join in 18 months or so. This would provide a certain stability of policy goals, while avoiding the wrenching adjustments that would soon follow an immediate bolt to the EMS door.

But this is probably no more than a midsummer pipe dream for tbe gilts market to play with. Instead the next few days presages the colder reality of tomorrow's trade figures and sterling (on a trade-weighted basis) bovering disquielingly close to 90.00 – the level which the markets have come to believe would trigger another base rate rise.

Katharine Campbell

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
AHFC O/S.FIN 11¼ 94	100	102½	-⅛	10.99
ALBERTA PROVINCE 7⅞ 91	750	96¼	0	9.16
ALBERTA PROVINCE 9⅞ 95	600	101¾	+⅛	8.96
ALCOA AUSTRALIA 11 92	80	101¼	-⅛	10.50
AMERICAN GENERAL 9¼ 95	100	102½	0	9.19
AUSTRALIA 11¼ 90	100	101¾	-⅛	9.67
AUSTRALIA 11¼ 00	100	107½	-⅛	10.10
AUSTRIA 7⅞ 97	200	93¼	+⅛	9.02
AUSTRIA 8½ 90	250	98¾	-⅛	9.45
[illegible]				
ONTARIO HYDRO 11⅛ 94	200	108¼	-⅛	9.17
ONTARIO HYDRO 11¼ 90	200	102⅛	0	9.73
ONTARIO HYDRO 13½ 91	100	105⅞	0	9.48
ONTARIO HYDRO 15 92	150	114⅞	0	9.43
OSTER KONTROLLBANK 8¼ 93	200	96⅞	-⅛	9.11
OSTER KONTROLLBANK 9⅛ 92	200	100¼	+⅛	9.00
PACIFIC GAS & ELEC 12 00	75	110½	0	10.30
PENNEY J.C 12¾ 91	100	102	+⅛	11.63
PEPSICO INC 7½ 93	200	93⅛	0	9.49
PEPSICO CAPITAL 8¼ 91	100	97⅝	0	9.71
PETRO-CANADA 7¼ 96	200	90⅞	D	9.00
PHILIP MORRIS 9⅞ 98	200	101¼	D	9.64
POSTIPANKKI 11⅛ 90	75	100⅝	-⅛	10.00
PROCTER & GAMBLE 10 95	150	101¼	-⅛	9.70
PRU RLTY.SECS 0 99	365	43½	+⅛	9.02
QANTAS AIRWAYS 8⅛ 96	97	96⅞	0	9.34

	Issued	Bid price	Chg on week	Yield
QUEBEC PROV 13 90	150	103⅜	-⅛	9.88
QUEENSLAND GOVT 11¾ 89	100	100⅜	0	10.07
RALSTON PURINA 11¾ 95	150	106⅛	0	10.17
REYNOLDS R.J. 10⅛ 93	100	96⅛	-⅛	11.34
RICHARDSON-VICKS 11½ 93	125	103	D	10.54
ROCKWELL INT 9⅞ 90	200	100	-⅛	9.86
S.A.S. 10¼ 95	150	103⅝	D	9.36
SARA LEE 9⅛ 93	150	98¼	-⅛	9.74
SASKATCHEWAN 7 91	125	96⅛	+⅛	9.54
SASKATCHEWAN 8½ 91	150	98⅞	+⅛	9.50
SASKATCHEWAN 11¾ 89	100	100⅛	-⅛	10.52
[illegible]				

CONVERTIBLE BONDS				
[illegible]				
ELDERS UK 5 97	75	109½	-⅛	-2.67
FUJITSU 3 99	180	223½	+16½	-2.14
GRACE (WR) 6½ 02	150	94	-⅛	21.32
GRAND MET 6½ 02	100	93	+1⅛	10.93
INTL PAPER 5¾ 02	200	89⅛	-⅛	29.00
LTCB 1⅛ 02	200	100	+4	-0.61
MCA 5½ 02	300	96¼	+⅛	12.76
MITSUBISHI OK 1⅛ 02	100	115¼	+6⅛	-3.48
NEWMONT MINING 7 01	100	120½	-⅛	0.24
NIPPON ELECTRIC 2⅞ 00	150	263	+23	-2.09
NISHI NIPPON 2⅞ 03	70	115	+7½	-2.77
PIONEER CONCRETE 9½ 90 A$	175	84¾	-1¼	16.96
ROCKEFELLER CENTER 0 00	952	32⅞	+⅛	-62.47
SANWA BANK 1⅛ 02	300	99½	+8¾	-1.28
SOUTHWEST AIRLINES 6¼ 98	35	—	—	—
TEXACO CAPITAL 11¼ 94	300	105⅛	-⅛	6.08

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6⅛ 93	20.00N	102⅛	D	5.83
AUSTRIA 4⅛ 94	30.00N	97⅛	+⅛	5.44
AVON CAPITAL 6⅛ 91	26.00N	100	0	4.79
BARCLAYS O/S INV 6 96	40.00N	103⅛	+⅛	5.46
B F C.E. 5⅛ 96	20.00N	101⅞	+⅛	5.42
CANADIAN PACIFIC 6⅛ 96	10.00N	104⅛	0	5.85
DENMARK 6⅛ 92	20.00N	101⅛	+⅛	5.39
[illegible]				

WARRANTS				
[illegible]				
COMMERZBANK O/S FIN 6⅛ 96	02/03/94	35	-2	9.39
CREDIT FONCIER 10⅛ 98	01/09/89	5	0	6.16
DENMARK 12¼ 92	07/03/93	150	-40	9.84
GEN ELEC CRED 9½ 92 B	31/01/98	65	0	9.73
GMAC 8⅛ 95 B	17/12/92	11½	-½	9.06
HEINZ H.J. 7½ 96	11/02/91	14	+1	8.41
NORDIC INV BANK 7⅞ 96	01/10/90	4½	0	7.41
NORDIC INV BANK 10 96	30/10/91	5	0	7.77
SUMITOMO TRUST FIN 12½ 92	27/03/96	50	-2	8.97
S.A.S. 9⅛ 03	20/02/92	65	0	9.56

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on JUNE 23

INTERNATIONAL CAPITAL MARKETS

CORPORATE FINANCE

Gateway alters M&A scenario

WHETHER successful or not, the intervention of Wasserstein Perella, the US corporate finance specialists, into the takeover battle for the Gateway stores group could signal important changes for mergers and acquisitions finance in the UK.

Wasserstein Perella and the Great Atlantic & Pacific Tea Company are, under the name Newgateway, together bidding £2.1bn ($3.2bn) for Gateway, the subject of a contested bid by former managers under the name Isosceles.

The deals are ostensibly similar, both being constructed with significant amounts of mezzanine debt bridging the gap between the senior loans and equity finance. But there are important differences.

The Newgateway bid has less senior debt – £1.7bn in total against £1.9bn in the Isosceles deal – and it all carries an interest margin of two percentage points.

The facility, underwritten in total by 10 banks with Citicorp and J.P. Morgan in the lead, comprises a £750m two-year facility to be paid down by asset sales, a $350m credit of the same maturity to bridge towards new property mortgages, a £450m seven-year term loan and a £150m working capital revolving credit of undetermined maturity.

Most interest has focused on the £500m of mezzanine finance, entirely underwritten by Morgan, which compares to £375m of mezzanine in the Isosceles bid. Whichever bid succeeds, it will contain the largest mezzanine portion yet seen in the UK.

Unlike the Isosceles financing, which was worked out in detail before the bid emerged, the Newgateway facility is described by bankers as fluid, largely because it was pnt together in three days.

Morgan is likely to syndicate among international hanks about £500m of bridging mezzanine with a year's maturity, which will be paid down very quickly by subordinated debt to be placed in the US, UK and Japan.

That debt could mature in 10 to 15 years. Although Newgateway's liabilities would remain in sterling, some of it could be structured using the currency swap market to cater for the appetites for dollar assets of the US private placement market and Japanese investors.

Resorting to US and Japanese institutional investors suggests that Morgan sees the UK market as too limited to place £500m of mezzanine debt. Indeed, it is widely thought that even the £375m of mezzanine in the Isosceles deal would be enough to give the UK market indigestion.

On top of that, Morgan is new to mezzanine in the UK and some of the more established names – 3i, GECC and Standard Chartered – are already committed to Isosceles.

Applying US financial muscle to the UK market in this way might sidestep some of the opposition from conservative UK institntional investors to management buy-outs. This, in the words of one banker, could take the mezzanine market "into another league."

The structure of the senior lending group reflects the twin birth of the Newgateway bid. Morgan is A&P's banker and was working on an aborted earlier deal with Kohlberg Kravis Roberts, while Citicorp was brought in by Wasserstein Perella.

Citicorp's role in the proceedings is interesting.

The US bank's refusal to contemplate the success-only fee structure on the Isosceles deal meant the earlier bidder had to look elsewhere for senior bank finance. Its participation in the Newgateway deal implies fees will be payable even if the deal fails.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	5,666.4	0.0	121.1	9,523.5
Prev	2,930.0	300.0	127.3	11,559.0
Other	1,101.4	99.4	0.0	2,164.2
Prev	1,398.0	376.9	0.0	4,922.0

Secondary Market

US$	31,007.6	3,064.7	4,781.8	7,636.7
Prev	31,904.7	3,507.0	7,985.7	7,791.6
Other	20,435.9	1,278.6	2,306.3	41,805.0
Prev	16,846.0	3,990.4	3,926.0	27,324.3

	Cedel	Euroclear	Total
US$	13,094.9	46,706.9	59,801.8
Prev	13,948.6	50,156.7	64,105.3
Other	30,340.1	41,851.9	72,192.0
Prev	24,928.3	31,255.3	56,183.6

Week to June 22, 1989 Source: AIBD

INTERNATIONAL BONDS

European Commission brings off Ecu balancing act

BARELY a ripple passed through the Ecu bond market last week – a form of silent testimony to the success of the European Commission in reconstituting the currency.

Although the actual reweighted Ecu will not come into being until September, analysts believe that, for the most part, yield adjustments for securities reflecting the recomposition have already been made in the markets.

Mr Jim O'Neill, economist at Swiss Bank Corp, notes: "The Ecu is probably fairly valued now against all its component currencies."

Ecu Eurobond prices eased slightly last week, mostly reflecting profit-taking by speculative accounts which had bought aggressively the week before. In a last-minute change of heart, several accounts had bought bonds on the view that the recomposition might cut the weightings of the lowest yielding currencies even less than had been anticipated.

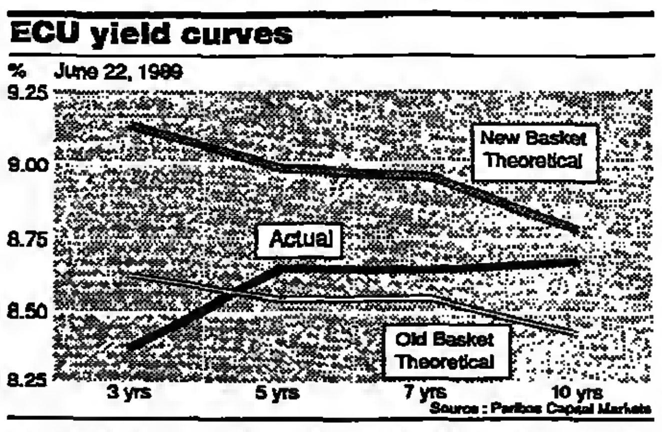
This suggested that yields had risen too far in anticipation of the recomposition and would fall back. When the new composition turned out to look pretty much as many analysts had forecast, the speculative accounts shed their positions.

The Ecu bond market, by all accounts, has been one of the worst performing sectors this year as investors and bankers tried to guess what effects the recomposition would have on yields.

Yields have risen steadily as the bond markets adjusted returns to reflect the fact that the weightings of the lowest yielding currencies – the D-Mark and guilder – would be likely to be downgraded while the peseta and the escudo, high yielding currencies, would be likely to join the basket.

According to Mr O'Neill, an investor switching out of US dollar bonds into Ecu instruments on January 1 would have had a negative return of 20 per cent so far this year.

A D-Mark investor switching to Ecu bonds would have had a negative return of 7.6 per cent. A sterling investor's portfolio would have had a negative return of 2.3 per cent while a French franc investor would have had negative returns of 10.3 per cent. Only Japanese investors would have gained by switching into Ecu, and even then only by a modest 3.4 per cent. By switching into dollars they could have had total returns of 25 per cent.



But events of the past week have shown that projections of private analysts, combined with the effects of periodic inspired leaks and public pronouncements from EC member states, had given the markets ample information to adjust yields properly over a six-month period.

Mr Jean Louis Pezet, of Banque Paribas Capital Markets, notes that according to one key gauge of Ecu bond yields – the relationship between theoretical and actual yields – very little further adjustment in yields is needed. Theoretical yields, calculated by devising a hypothetical basket of government bonds of Ecu currencies in appropriate proportions, should be 20 to 30 basis points above actual bond yields, varying somewhat according to maturity.

Mr Pezet explains that the higher theoretical yield largely reflects the convenience factor of having bonds of various currencies bundled into a single security and also takes into account the effects of withholding tax for soms countries' bonds.

While actual yields among five- to seven-year Ecu Eurobonds are around their historical levels below the theoretical yield, 10-year securities are not. Mr Pezet says that the current spread, at only about 19 basis points, suggests that actual yields in the sector may have some way further to fall and recently issued 10-year Ecu bonds may offer value for investors.

By comparison, spreads on actual three-year issues are well below their historical levels relative to theoretical yields and may have to rise further.

Meanwhile, analysts acknowledge that the new Ecu would look quite different if countries' currencies were actually weighted to reflect their GNP and trade positions.

Mr O'Neill points out that political considerations and a desire to upset the Ecu bond markets as little as possible were key factors in the currency's relatively modest redesign.

While there was a desire not to see the D-Mark carry a weighting of below 30 per cent – it formerly had a weighting of 34.7 per cent – its relative GNP could have justified a weighting around 26 per cent. Some of the weighting assigned to the D-Mark probably came out of that which should have gone to sterling if economic activity were the sole determinant.

However, EC members preferred to keep sterling's weighting at 13 per cent partly out of concern over the impact of increasing the weighting of a high-yielding currency. Members were also apparently piqued over the UK's refusal to join the EMS – with some French officials even going so far as to suggest that sterling be eliminated from the Ecu altogether.

● Belgium issued a Ecu150m 10-year floating rate Eurobond which will be fungible with an existing Ecu200m tranche with identical terms launched in April.

The bonds will pay interest at a rate equal to the mean of London interbank bid and offered rates (Limean) and will be callable at par from May 1994 on each interest payment date at par.

Banque Paribas Capital Markets, the lead manager, said that while there were three other Ecu-denominated floating-rate issues outstanding all were eligible for immediate call, making its new issue more attractive by comparison.

Norma Cohen

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nippon Tel.& Tel.◆	200	1999	10	9	101¾	Paribas Capital Mkts	8.731
Fuji Bank (Canada)◆	20	2004	15	9¼	102¼	Fuji Int.	8.971
Swedbank◆	100	1999	10	9.7	101⅞	Salomon Brothers	9.403
Euro Credit Card Trust◆	300	1994	5	9¼	101⅛	Citicorp Inv. Bank	8.961
Hitachi Data Systems◆	20	1993	4	9¼	101¼	IBJ Int.	8.865
Student Loan Mark.Ass.◆	100	1993	4	9	101⅜	Fuji Int.	8.580
NYK Int.◆	100	1994	5	9½	101⅞	Mitsubishi Finance	9.018
IBM Credit Corp.◆	250	1992	3	9	101.42	Goldman Sachs Int.	8.445
St. Elec.Comm.Victoria◆	100	1992	3	9½	101¾	Nerrill Lynch	8.811
Amgen Inc.§◆	50	2004	15	8	100	Morgan Stanley	8.000
LIVES 21(f)‡◆	137	1993	4	18¼bp	100.1	Nomura Int.	-
Nichimen Corp.◆	300	1993	4	(4⅜)	100	Daiwa Europe	★
Sanrio Co.◆	200	1993	4	(4½)	100	Yamaichi Int. (Eur)	★
Toronto-Dom.Cayman(g)◆	78	1990	1	8¾	101	LTCB Int.	7.873
Kredietbank Int.Fin.(h)◆	20	1992	3	10¾	101⅛	Kredietbank Int.	9.824
Kredietbank Int.Fin.(i)◆	20	1992	3	Zero	100	Kredietbank Int.	-
CANADIAN DOLLARS							
Privatbanken★★◆	580	1994	5	(c)	100	Drexel B'ham Lambert	-
AUSTRALIAN DOLLARS							
Toronto-Dom. Australia◆	50	1992	3	16	101⅞	Hambros Bank	15.176
NEW ZEALAND DOLLARS							
State Bk S'th Australia◆	50	1992	3	14	102	Hambros Bank	13.151
D-MARKS							
Uny Co.♦◆	300	1994	5	1¾	100	Deutsche Bank	1.750
Mizuno Finance Neth.★★◆	100	1993	3½	7½	101¼	Sumitomo Bk (Germany)	6.900
IKB International★★◆	60	1992	3	7	101	Industriekreditbank	6.622
SWISS FRANCS							
Maxwell Finance§◆	125	1994	-	5½	100	SBC	5.576
BFCE◆	200	1999	-	5¾	101¼	Credit Suisse	5.515
Asakawagumi Co.(j)★★§	40	1993	-	(⅞)	100	Nomura Bank (Switz)	★
Uekigumi Co.(k)★★§	50	1993	-	(½)	100	Citicorp Inv. Bank	★
YE Data Inc.(l)★★§	60	1993	-	(1)	100	UBS	★
Nichimen Corp.(m)★★§	100	1993	-	(⅞)	100	Citicorp Inv. Bank	★
Ask Planning C'tre(n)★★§	60	1993	-	(1)	100	UBS	★
Shimano Industrial(p)★★♦	150	1994	-	(2)	100	Bqe Paribas (Suisse)	
STERLING							
P&O◆	100	2014	25	11½	97⅝	BZW	11.799
Northern Rock B.S.(d)‡◆	75	1992	3	1/16	100	UBS Phillips & Drew	-
Bqe Nationale de Paris◆	75	1992	3	12¼	101.30	BZW	11.835
Amsterdam-Rotterdam Bk◆	50	1992	3	12⅜	101.30	Samuel Montagu	11.835
ECUs							
Club Mediterranee(e)◆	40	1990	1	15	101⅞	Societe Generale	12.883
Belgium(q)‡◆	150	1999	10	(q)	100	Paribas Capital Mkts	-
LIRE							
Renault Acceptance◆	100bn	1992	3	12¾	101.20	San Paolo Bank	12.248
PESETAS							
European Community◆	15bn	1998	4	12⅜	101⅜	Bankers Trust S'ios	11.923
YEN							
Bqe Nationale de Paris◆	4bn	1992	3¼	(a)	101⅜	Bankers Trust Int.	-
Bergen Bank‡◆	4bn	1991/92	2/3	(b)	(b)	IBJ Int.	-
Bank of Montreal(o)◆	4bn	1992	3	7	101⅜	Nippon Credit Int.	6.481

★Not yet priced. ★★Private placement. ♦With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) First coupon 5⅜%, Nikkei stock index linked thereafter. b) Launched in four tranches of Y1bn each (additional Y1bn on tap for each tranche). Coupon linked to Japanese long-term prime rate. Issue price 100.10 and 100.15. c) Coupon linked to 3-month Banker's Acceptance rate. d) 1/16 over 3-month Libor. Additional £25m on tap. e) Borrower option to redeem in either Ecu or $. f) 18¼bp over 6-month Libor. g) Additional $78m on tap. h) Borrower option to redeem in US$ or BFrs. i) Redeemable at 119.25% in US$ linked to BFr. Investor option to have principal amount (100% nominal value of bond) paid in US$. Indicated yield to put: j) 4.229%. k) 4.27%. l) 4.242%. m) 4.20%. n) 4.275%. o) Redemption linked to Nikkei stock index. p) Issue postponed. q) 3-month Limean. Fungible with Ecu200m FRN launched in April. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Generali net profit climbs 22% to L572bn

ASSICURAZIONI Generali, Italy's largest insurance company, reported a 22 per cent rise in consolidated net profit in 1988 to L572.4bn ($407m) from L468.6bn the previous year, AP-DJ reports from Trieste.

The consolidated results, certified for the first time by an independent auditor, Coopers & Lybrand, revealed that consolidated net profit minus minority interests grew 21.4 per cent to L510.5bn in 1988, from L420.5bn a year earlier.

Mr Enrico Randone, the group's president, told the annual meeting that preliminary figures showed insurance premiums grew by more than 15 per cent during the first four months of 1989.

The best growth during that period was registered in the life insurance sector, which expanded by 23 per cent, while non-life premiums grew at the lesser pace of 11 per cent. Mr Randone added that the slowdown reflected an overall decline in the non-life sector in Italy.

He added that overall growth for 1989 was expected to stay in line with results registered the previous year.

Shareholders approved a dividend increase of L330, up 40 per cent from last year, after taking into account a capital increase of L1,100bn.

Mr Randone said Generali and Cie du Midi, the French financial services company, had not yet "sat down around the table" to work out the details of a previously-announced plan to invest up to $1bn in North America.

Generali acquired a 16.34 per cent direct stake in Midi last year and effectively controls about 20 per cent through its alliances. It recently won two seats on the board.

Generali's consolidated net assets rose to L4,290bn in 1988 and consolidated premium income climbed by 11.9 per cent to L10,900bn. Of this, L3,600bn was collected from life premiums and L7,200bn from non-life premiums.

Premiums were written in more than 40 countries, with the Italian market accounting for 36.1 per cent of the total and the EC 40.5 per cent.

Holly Farms agrees to $1.4bn bid from Tyson

By Deborah Hargreaves in Chicago

HOLLY FARMS, the US chicken processor, has ended an eight-month takeover battle with an agreement to be acquired by Tyson Foods for $70 a share, or about $1.4bn.

In agreeing to Tyson's cash bid, Holly's board ended a stock-swap merger deal with ConAgra, the big flour milling company.

The merged company will have a market share for chickens of about 28 per cent – consolidating Tyson's position at the helm of the industry.

ConAgra is to receive payment of $50m as a termination fee, as payment for expenses and as recompense for releasing Holly from a controversial lock-up clause in its merger arrangement.

Tyson had vigorously fought the merger settlement between Holly and ConAgra in the courts. Once Holly accepted Tyson's latest offer it agreed to lift an injunction against paying ConAgra compensation for calling off the deal.

ConAgra is to receive payment instead of being sold certain of Holly's assets, as the lock-up clause stipulated.

ConAgra entered the fray as a white knight after Tyson made a hostile takeover bid for Holly in October last year. Shareholders initially preferred Tyson's all-cash bid and were due to vote on ConAgra's higher swap deal in July.

The takeover will lift Tyson's debt-to-equity ratio close to 90 per cent. Mr Jim Blair, the company's general counsel, said it would consider selling assets to help pay down part of the debt.

He insisted that Tyson would not be forced to sell assets, but would consider disposing of Holly's flour milling operations and its by-products processing division.

Tyson has lucrative contracts with fast-food chains, including McDonald's, but its chicken processing plants are running close to capacity. It has been desperate to obtain additional capacity.

Dual trading faces early ban

By Peter Riddell, US Editor, in Washington and Katharine Campbell in London

EARLY US legislation looks increasingly likely to ban dual trading in futures markets, under which brokers deal for themselves while also acting for clients.

A proposal which would ban such trading in the 20 most active futures contracts has been put forward in the House and Senate committees concerned with regulating futures markets. The matter is still being debated, but decisions will be taken by the committees next month.

Congressional support for tighter regulation of the futures markets has increased following Federal investigations of abuses in the Chicago and New York markets. Congress is under political pressure to toughen regulation and a ban on dual trading is regarded as an attractive option.

Mr Glenn English, Democratic chairman of the House sub-committee concerned with the issue, has refused publicly to discuss his proposal, although he has said his members have "indicated they want a tough, fair bill and one that eliminates as many questions as possible about the ability of the futures industry to be regulated."

Mr John Damgard, of the Futures Industry Association, argued that dual trading was not responsible for problems in the futures markets. He said "a few bad apples created a very unfavourable impression."

Mr Damgard, who conceded legislation on dual trading had become more likely, said the real problem was improving the auditing of transactions, to detect and deter abuse.

The US exchanges present a far from united front on the matter. While a special taskforce of the Chicago Mercantile Exchange, set up in response to the FBI investigation, has come up with recommendations – apparently closely mirrored in the congressional proposals – largely to outlaw the practice, most other exchanges maintain that a ban could reduce liquidity and increase volatility.

To meet some of the objections the current proposal would permit dual trading in contracts where there is low trading volume, with a possible cut-off of a daily trading average of 7,000 contracts.

But several exchanges still contend the ban fails to prevent a broker from profiting by virtue of his knowledge of the client order flow.

BZW to buy stake in Canadian broker

By David Owen in Toronto

BARCLAYS de Zoete Wedd (BZW), the broking arm of Barclays Bank, is to buy a 50 per cent stake in Deacon Morgan McEwen Easson, a medium-sized Canadian institutional brokerage firm. Terms of the deal were not disclosed.

The move will increase the growing British presence in the still struggling Canadian brokerage sector. Last November S.G. Warburg agreed to combine its Canadian brokerage and corporate finance businesses with Alfred Bunting, another Toronto-based institutional research firm.

Deacon was previously 33 per cent owned by Jarden Morgan Australia. BZW has agreed to buy this stake and an additional 17 per cent interest formerly held by employees.

Following the acquisition the firm, which will be known as Deacon Barclays de Zoete Wedd, will be jointly owned by BZW and approximately 50 employee shareholders.

Prime opts for $1.25bn takeover by Whitney

By Roderick Oram in New York

PRIME COMPUTER, the second largest US maker of computer-aided design and manufacturing equipment, has accepted a takeover offer worth an estimated $20 a share in cash and paper, or $1.25bn in total.

The offer tops a cash and paper offer worth about $18 a share from MAI Basic Four, a small and struggling personal computer manufacturer which launched its initial offer for Prime last November. MAI had no immediate comment on whether it would raise or drop its bid, of which the cash component is $19.50 a share.

Prime, which had been fighting off the MAI bid, accepted the higher terms offered by J.H. Whitney & Co, which describes itself as the oldest venture capital firm in the US.

Whitney is offering $21.50 cash for 79 per cent of Prime's stock and will exchange the remainder of its equity for bonds with a face value of $22 a share and a coupon of 15.5 per cent.

Analysts estimate the value of the terms at $20 a share.

AMI buys back 20-year bonds

By Stephen Fidler

AMERICAN Medical International, the US hospitals group whose board will meet on Thursday to consider a $3.3bn leveraged buy-out offer, has won permission from bond holders to repurchase 20-year zero coupon bonds it issued in 1982.

Bond holders representing about $110m of the $140m bonds outstanding were located by the company and its financial advisers.

About $60m of bonds will be retired at the guaranteed minimum price of 27 per cent of face value, and no purchases will be made of bonds tendered at prices higher than that through a novel Dutch auction system. About $80m of bonds will thus be outstanding.

The buy-back will cost AMI about $21m.

UK COMPANY NEWS

Isosceles says its cash and paper offer exceeds value of WP/A&P bid

Gateway battle looks set to resume

By Nikki Tait

THE £2bn-plus battle for control of Gateway, Britain's third largest food retailer, looks set to resume this week, with Isosceles, the newly-formed company, attempting to argue that the value of its cash and paper alternative exceeds that of the all cash joint bid from Wasserstein Perella, the US corporate finance boutique, and Great Atlantic and Pacific Tea Company, the fourth largest food retailer in the States.

WP/A&P, meanwhile, will try to raise its stake in Gateway from the current level of just over 9 per cent, to at least 25 per cent – at which point, given the leveraged nature of the Isosceles bid, it claims there would be a significant measure of "negative control". It also pointed out yesterday that even with 10 per cent it could prevent Isosceles from mopping up the minority shareholders – although Isosceles disputes whether WP/A&P would remain as long-term holders if it passed the 50 per cent mark.

Isosceles confirmed yesterday that it has asked Salomon Brothers, the US investment bank, to put a value on the equity element in its cash and paper alternative. The terms of this alternative are £480 in cash and one Isosceles unit – comprising three ordinary shares and nine preference shares in the new company – for every 200 Gateway held.

Panmure Gordon, Isosceles' brokers, had previously valued each Isosceles unit at "not less than" £30 – or 15p per Gateway share. However, the new valuation is thought to have raised this to at least 30p a share. On this valuation, the cash and paper alternative becomes worth at least 245p per Gateway share.

This compares with the 237p in cash which WP/A&P is offering and the 230p cash alternative from Isosceles. The WP/A&P offer has not been declared final.

Isosceles added that Salomon was "very keen" to make a market in Isosceles shares. However, the new valuation will not enable Isosceles to buy shares in the market at more than 230p.

Yesterday, advisers to the WP/A&P camp described the new Isosceles valuation as "cuckoo land". "The fact is, you can get anyone to put a value on a stub of anything," commented one. The WP/A&P camp this week plans to meet institutions with a view to presenting its own industrial case.

However, even if WP/A&P succeeds in throwing doubt on the new valuation, it may still face problems in raising its own stake. Some institutions are unlikely to make any decision until the bidder's terms have been declared final, while WP/A&P may wish to keep its options open in case, at a later stage, it can persuade Isosceles to part with its 37.6 per cent stake in Gateway. So far, Isosceles has said that it has no intention of accepting the WP/A&P offer.

Financing, page 19.

Alec Monk: chairman and chief executive of Gateway.

Gold Fields' bid defence focuses on value of ARC

By Vanessa Houlder

CONSOLIDATED Gold Fields, the diversified UK mining group, is planning to make the value of ARC, its aggregates subsidiary, a key plank of its defence against Hanson's £3.1bn bid.

Mr Rudolph Agnew, Gold Fields chairman, intends to focus on ARC in his attempts to force Hanson to increase its offer from its present level of £14.30 per share. Mr Agnew, who meets Lord Hanson early this week, is expected to argue that ARC's value has risen over recent months as a result of the Government's planned expenditure on roads and water.

Gold Fields yesterday played down reports that it was actively considering launching a leveraged buyout backed by Kohlberg Kravis Roberts.

Mr Gerry Grimstone of Schroders, *Gold Fields'* advisers, said that the company was looking at all its options, including a leveraged buyout, a "white knight" counterbid and a restructuring exercise. "At this stage, all these things are no more than abstract possibilities," he said.

Tiphook and Stena invite Sherwood to discuss terms

By Vanessa Houlder

TIPHOOK and Stena, the Anglo-Swedish partnership making a hostile $824m (£532m) bid for Sea Containers, have invited Mr James Sherwood, president of the containers and ferry group, to discuss terms, including a possible increase in the offer.

Mr Robert Montague, Tiphook's chairman and Mr Dan Sten Olsson, Stena's chief executive, wrote to Mr Sherwood on Friday, after the US courts lifted an injunction that could have frustrated their bid.

In the letter, the bidders urged the company not to pursue other options such as a leveraged buyout or restructuring, without first discussing their offer. They also requested access to figures that Sea Containers has made available to third parties.

In addition, they questioned Mr Sherwood's claim that his defence plans could realise between $70 and $100 per common share. "We believe these price levels can only be based upon attributing unrealistic and unsupportable values to real estate and other assets," they said.

The letter follows Mr Sherwood's comments to the press last week, which led to a strong rise in the value of Sea Container's stock. Mr Sherwood said that Lazard Frères, the group's US merchant bank, had valued Sea Containers at about $2bn – or more than $120m a share – two years ago.

Stena, the Swedish ferry group and Tiphook, a UK container rental company, are jointly offering $50 in cash for each Sea Containers common share.

Thorpac in £2.5m expansion

By John Thornhill

THORPAC GROUP, the USM-quoted manufacturer and distributor of freezer and cookware equipment, is to expand its interests in spirit measures and catering accessories.

The company has agreed to buy the business and assets of the JT Supplies partnership, which makes and markets a wide range of bar and catering accessories. The total consideration will be up to £2.5m in shares.

JTS made pre-tax profits of £134,000 on sales of £677,000 in the year to April 30, at £200,000.

Thorpac will initially pay £1.25m for JTS through the issue of 2.78m shares. 1.11m of which will be retained by the vendors for at least one year.

The rest will be placed at a price of 45p, although they will first be offered to existing shareholders at that price on a one-for-17 basis.

Preference shareholders will be offered these ordinary shares on a 100-for-766 basis.

A further consideration of up to £1.25m will be payable in shares, dependent on JTS' profits in the 23 months to March 31 1991.

Misys £10m purchase confirms Unix presence

by Alan Cane

MISYS, the fast-growing computing services group, yesterday confirmed its presence in the market for Unix systems for the construction industry with the acquisition for £10m of Team Systems Group, a Unix house founded six year ago.

The consideration will be satisfied by the issue of 2.4m new ordinary shares of 5p each at 402p a share. Misys says it is simultaneously placing 25 per cent of the consideration shares in the market but will neither sell nor otherwise dispose of the consideration shares for a period of two years. The price is based on Team Systems achieving a warranted profit of £1.18m before tax in the year to September 30, 1989.

In 1988, Team Systems showed profits before tax of £760,000 on a revenue of £6.1m.

Unix is an operating system, a piece of software which controls the internal workings of a computer system, which is finding increasing popularity as an industry standard for small and medium-sized computers.

The Team Systems Group has more than 100 employees. It sells Unix software packages primarily for accounting and database applications with most of its customers in the construction industry.

Kewill continues growth pattern with 63% surge

By Alan Cane

KEWILL SYSTEMS, the Surrey-based computing services group quoted on the USM, continued its strong growth pattern of recent years with pre-tax profits up 63 per cent at £1.81m in the year to March 31.

Turnover climbed even more steeply – 72 per cent to £11.33m.

Earnings per share were up to 19.71p (13.07p) at the basic level after tax had levied £626,000 (£353,000).

The directors have proposed raising the dividend for the year to 3p (2.2p).

Founded in 1972 as a management consultancy, Kewill has increasingly derived its revenues from the sale and support of its personal computer-based family of manufacturing software packages, Micross, which include support for the drawing office, manufacturing control and field service.

Mr JK Overstall, *chairman*, said the group intended to increase its revenues by 50 per cent per annum through organic growth and acquisition.

The group is part of a consortium which has raised £4m, partly from the Department of Trade and Industry, to develop an advanced integrated manufacturing and accounting system which will run on any manufacturer's computer.

American Distributors

American Distributors has asked us to point out that the expected rise of more than 12 per cent in pre-tax group profits this year which was predicted by the chairman at its annual meeting in June 12 referred only to the effect of the appreciation of the dollar against sterling.

Blue Arrow stake

Harris Associates, the Chicago-based investor, has increased its stake in Blue Arrow, the employment agency, from 7.16 per cent to 8.21 per cent. Mr Mitchell Fromstein, Blue Arrow's chairman said he regarded the holding as friendly.

Inishtech in £11m packaging products buy

By Vanessa Houlder

INISHTECH, the industrial holding company formerly known as Inishtech Capital Fund, has agreed to buy Plasboard Plastics, a Scottish packaging products manufacturer, *for a maximum of £11.25m.*

The announcement came as the company reported pre-tax profits of £468,000 on sales of £3.50m for the year to March 31.

Plasboard Plastics, which makes disposable polystyrene and packaging products, made pre-tax profits on continuing activities of £1.12m on sales of £5.68m in the year to March 31, when it had net assets of £1.85m.

An initial payment of £8.25m will be made to Plasboard's vendors with a deferred profits-related consideration of up to £3m.

After tax and extraordinary items, Inishtech made a loss of £373,000. There was an extraordinary charge of £676,000 arising from restructuring costs and the disposal of its venture capital portfolio.

Earnings per share were 8.8p, although the company argued they had limited relevance due to the restructuring exercise. in line with policy in previous years, all profits will be retained for development purposes.

FII's £4.3m for Micro Movement

By Philip Coggan

FII GROUP, the footwear manufacturer, is purchasing Micro Movements, a recording instrument manufacturer, for a maximum of £4.33m.

The group is also estimating that pre-tax profits for the year to May 31, 1989 will be not less than £6.7m (£5.6m).

Earnings per share are forecasted to be 35.5p, and the directors expect to recommend a final dividend of 6.5p, making a total of 10p.

FII is paying £3.08m initially for Micro Movements, via the issue of 1.24m ordinary shares, Of those shares, 908,000 are being placed.

COMPANY NEWS IN BRIEF

Eurocopy lifts profit by 40%

EUROCOPY, the supplier of photocopier and fax equipment which came to the market last June, increased pre-tax profits by 40 per cent from £1.68m to £2.35m in the six months to March 31.

In February this year the company acquired Equipu from Sketchley for £14.2m. This increased its installed machine base from 2,400 to almost 12,000. The two acquisitions have given Eurocopy a nationwide presence. An interim dividend of 0.9p has been declared.

Bulgin profits hit in second half

Difficult trading conditions in the second half hit profits at AF Bulgin, Essex-based maker of electrical and electronic components. After doubled interim taxable profits, the second six months saw profits fall 32 per cent.

The result was that on turnover which rose from £11.97m to £12.93m – an increase of 8 per cent in the year to the end of January – pre-tax profits came out at £781,000, against £712,000.

Earnings per share were 1.9p (1.58p) and the directors are proposing an unchanged single final payment of 0.2p.

Mr Ronald Bulgin, chairman, warned that the difficult conditions had continued into the first half of the present year.

Soundtracs up 30% thanks to exports

Soundtracs, the USM-quoted audio equipment manufacturer, lifted pre-tax profits 30 per cent for the six months to April 30. The taxable result was £417,000, against £320,000, and was achieved on turnover up 33 per cent from £1.5m to £1.99m.

The increase in profits was mainly due to a further substantial increase in sales in North America – exports account for 85 per cent of the company's sales, Mr Todd Wells, chairman, said the company had continued to add innovative and more complex products to its range of professional audio products.

Earnings advanced to 2.71p (2.08p) and the interim dividend is 0.85p (0.7p).

Eldridge Pope lower

Eldridge Pope & Company reported lower interim pre-tax profits of £1.05m, against £1.39m after finance changes which rose from £77,000 to £563,000.

Turnover for the six months to April 1 rose £3,600 to £19.58m. Earnings per share were 5.3p (4.7p) and the interim dividend has been increased to 1.75p (1.6p).

FT Share Service

The following security was added to the Share Information Service in Saturday's edition:

Ashley Group 8.25p (Net) Cum. Red. Cuv. Pref. (Section: Foods).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Airtours, FII Fyffes, Gestetner.

Finals- Bardon, Berkeley, Cranswick Mill, Davy Corp, Fletcher King, Stocklake, Unit, Whitecroft, Wyndham.

FUTURE DATES

Interims-

Aukett Associates	June 27
Kleinwort Benson Gilt	July 3
Low & Bonar	July 10
Nobo Group	July 11
Southern Business	July 5

Finals-

Broad Street	June 27
Gresham House	June 28
Stanley Leisure	July 20

FINANCIAL TIMES STOCK INDICES

	Jun 23	Jun 22	Jun 21	Jun 20	Jun 19	Jun 16	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.45	84.51	84.66	84.72	84.76	84.61	89.29	83.75	127.4	49.18
Fixed Interest	95.54	95.89	95.89	95.59	95.72	95.68	99.59	95.21	105.4	50.53
Ordinary	1797.7	1809.3	1800.9	1791.8	1780.7	1771.8	1837.5	1447.8	1926.2	49.4
Gold Mines	192.8	193.2	184.7	184.9	183.8	182.4	196.1	154.7	734.7	43.5
FT-Act All Share	1109.89	1115.46	1112.12	1103.39	1103.16	1093.73	1131.41	921.22	1238.57	61.92
FT-SE 100	2167.5	2180.0	2172.2	2164.8	2154.7	2143.9	2204.7	1782.8	2443.4	986.9

IN BRIEF....

Thurrock car park project

TEAM MANAGEMENT AND PROJECTS has been awarded a £15m design and build contract to construct a 3300 vehicle multi-storey car park in Thurrock as part of the Lakeside shopping development. It is believed to be one of the largest in the UK. It comprises four structures, three linked, providing a floor area of 80,000 sq metres. Construction will be of in situ reinforced concrete, using a trough deck principle, to achieve 15.2 metre clear spans. It will be brick-clad, with a mansard roof to part of the building. Completion will be in 63 weeks.

* * *

The latest batch of contracts won by **SHEPHERD CONSTRUCTION** totals £23.5m. Projects have been secured in Coventry, Edinburgh, Crewe, York and Sheffield. The largest is a £9.4m order to build a 14-storey office building in Chapel Street, Coventry, for Equity & Law Life Assurance Society. A £7.3m design and build contract has been secured for country club facilities at Dalmahoy Golf and Country Club, Kirknewton, Edinburgb, for Country Club Hotels, part of the Whitbread retail division.

* * *

MORRISON CONSTRUCTION GROUP has has been awarded contracts totalling almost £26m for civil engineering and construction projects throughout the UK. The Edinburgh-based gronp has contracts worth £16.7m in Scotland. In England work is valued at £9.2m.

* * *

WESTRIDGE CONSTRUCTION, Isle of Wight, a division of Leading Leisure's Horton Building Group, has won contracts worth nearly £10m.

* * *

BRIMS & CO. has been awarded contracts totalling £3m. For Langbaurgh Borough Council at Redcar 49 houses and flats are to be refurbished and 10 bouses built; and a window replacement programme has been awarded by Stockton Borough Council on the Roseworth housing estate - together these contracts total abont £2m. A £640,000 contract from English Estates is for advance factories at Seaham Grange Indnstrial Estate. Durham County Council has placed an order for the reconstruction of Milburngate Bridge on tbe A690, worth over £300,00Q.

* * *

WILLMOTT DIXON companies have started work on orders worth over £11m. The largest, worth about £3m, is for 62 bomes in Cricklewood for the Metropolitan Housing Trust.

CONTRACTS

£46m orders for Lilley

LILLEY has £46.1m worth of new orders won last month.

MDW, the building arm, secured contracts worth £20.4m, including a £12m Glasgow office development and a major commercial development in Edinburgh.

Recent contracts awarded to Lillay Devalopments total £12.6m and include a joint venture to develop three housing sites in Yorkshire worth £8m.

Standen Construction, Nottingham, received orders totalling £5.3m which include construction of a civic centre and a school.

Edan Construction, tha group's Cumbrian-based subsidiary, has secured deals worth £3.4m, including construction of a complex treatment plant in Cheddleton.

Lilley Construction has secured a number of contracts worth £4.4m including a housing refurbishment at Upper Grosvenor Housa, London, worth £1.1m.

University department

MOWLEM SCOTLAND, part of Mowlem Regional Construction, has won work worth £12.8m. The largest contract, valued at £6.5m, has been awarded by Heriot Watt University for electrical engineering and compnter science department facilities on its campus at Riccalton, Edinburgh.

The work consists of a main spine block with four spur blocks radiating east and west and a link to the chemistry department. It will provide accommodation for teaching and research laboratories, lecture rooms, common rooms, offices and stores. The main spine block will have extra storeys to house a plant room and aerials platform.

Tba company has been awarded a £4.8m contract for an integrated weapons complex at the Royal Naval armaments depot in Crombie, Fife. The work consists of one building with concrete walls on bored piles and a variety of reinforced concrete structures. Included in the contract are all electrical, heating, ventilation and air conditioning services, as well as the installation of special safety, monitoring and interface equipment. The company is also responsible for a series of construction and refurbishment projects to the depot facilities.

In Stirling, a £700,000 contract for a combined water and drainage dapot has been awarded by the Central Regional Council. The Clydesale Bank in Falkirk has awarded a £700,000 contract for fitting-out its banking hall.

£7m hospital steelwork

GRAHAM WOOD has been appointed to carry out the structural steel framework, totalling £7m, on the Westminster & Chelsea Hospital, awarded by Laing Management Contracting. This is Graham Wood's largest order to date. The project will be the first hospital to use the fast track form of construction.

The 650-bed teaching hospital will be built on the site of the 111-year-old St Stephens Hospital, Fulham Road, London. With a floor area of 1.1m sq ft, tha medical centre will comprise lower ground, ground and five upper levels surrounding a central atrium. Car parking is provided at basement level. Two separate buildings house a mental health unit and a nurses home on the 75 acre site.

£5m City office block

M.J. GLEESON GROUP has started building a £5.5m office development at 23-29 Camomile Street, in the heart of the City of London, for Sheraton Securities International.

To ba called Camomile Court, the building will comprise seven storeys with an atrium rising through all floors - above a lower ground floor - and have a gross floor area of 11,000 sq metres.

It will be air-conditioned and double-glazed throughout, and have five lifts. The works are scheduled to take 82 weeks to complete.

The frame will be of reinforced concrete, with suspended floors and ceilings, and the exterior will be clad with granite and limestone panels.

Plant rooms are to be located on the roof, and within the lower ground floor - which will also provide office accommodation.

Refurbishment in City

Sixteen contracts, together worth £13m, have been won by the City of London builder **ASHBY & HORNER**, a P&O company.

Among the orders is a £4m office development at Old Street, London, for Downland Commercial Estates.

Other work includes a £1.2m refurbishment contract at Royal London House for Royal Mntual Insurance Society; a £500,000 refurbishment at Fielden House for British Telecom; and two floors of refurbishment at Cleveland House, London, for RTZ Group.

The PSA has awarded Ashby & Horner a £1.1m term contract for maintenance work to the Royal Naval College, Greenwich, and at the Tower of London.

DIARY DATES

FINANCIAL

TODAY

COMPANY MEETINGS-

Hi-Tec Sports, Moat House, Aviation Way, Southend-on-Sea, 10.00

North British Canadian Inv., 29, Charlotte Square, Edinburgh, 12.30

Westerly, 1, Victoria Square, Birmingham, 10.00

BOARD MEETINGS-

Finals:
Bardon
Berkeley
Cranswick Mill
Davy Corp.
Fletcher King
Stocklake
Unit
Whitecroft
Wyndham

Interims:
Airtours
Fil Fyfles
Gestetner

DIVIDEND & INTEREST PAYMENTS-
How Group 2.25p
Riverview Rubber Estates M$0.2
Saltire Insurance Invs. 2.31p
Thorsis 4p
Ulster Television 2.6p
Westpac Banking 7cts.

TOMORROW

COMPANY MEETINGS-

B.S.G. Int., National Motorcycle Museum, Coventry Road, Solihull, W. Midlands, 12.00

Brixton Estate, 22-24, Ely Place, E.C., 12.00

Eastern Produce, Sir John Lyon House, 5, High Timber Street, E.C., 12.00

First Charlotte Assets Tst., 1, Charlotte Square, Edinburgh, 2.15

Fleming Far Eastern Inv. Tst., 25, Copthall Avenue, E.C., 12.00

Globe Inv. Tst., Globe House, 4, Temple Place, W.C., 12.00

Moss Bros, 3, St. Johns Hill, S.W., 12.00

New England Porperties, Howard Hotel, Temple Place, W.C. 12.15

BOARD MEETINGS-

Finals:
Anglo Utd.
Avesco
Broad Street
Debenham Tewson
Equity & General
Halma
In Shops
India Fund
MS Int.
Microtec
Parkfield
Shanks & McEwan
Stead & Simpson
Stormgard
West Inds.
Yellowhammer

Interims:
Anchor Int.
Aukett Assoc.
Bangkok Invs.
Buck

LEGAL COLUMN

Compensation claimants left in limbo

By Robert Rice

LAST Thursday, an attempt to amend clause 112 of the Companies bill in a Commons committee was defeated amid acrimonious scenes.

Clause 112 was inserted into the bill by the Government in an attempt to provide a solution to the problem faced by claimants suffering from industrial disease or injury which develops after their former employers have gone into liquidation.

The problem had been highlighted by a decision of the House of Lords in March in the case of Bradley v Eagle Star Insurance where the Law Lords decided by a majority of four to one that a woman had no cause of action against her former employer's insurers for injuries which she claimed she had received while at work.

Mrs Doris Bradley had worked in a Bolton cotton mill for various periods between 1933 and 1970 during which time she had inhaled large quantities of cotton dust which she alleged had resulted in her contracting the respiratory disease byssinosis.

In 1984 she brought a claim against Eagle Star because the mill had gone out of business almost ten years before. Eagle Star had accepted liability and been paid premiums in respect of any industrial injuries suffered by Mrs Bradley and her fellow workers during the period they were employed by the mill.

The Law Lords ruled, however, that on a strict interpretation of the Third Parties Act 1930, she had no right of action against the insurers. The decision deprived her of any chance of bringing a claim for compensation.

In a dissenting speech, Lord Templeman said that in his view the dissolution of the mill company should be irrelevant to her case.

Once a company has gone bankrupt it seems a claimant has no one to sue

As well as the potentially disastrous consequences of the ruling for workers suffering from latent occupational disease or injury, consumer organisations warn that it could affect people who buy products from companies which go bankrupt and who are subsequently injured by the product.

Once a company has gone into voluntary liquidation or been wound up and taken off the companies register it seems a claimant has no one to sue.

Section 651 of the 1985 Companies Act allows for re-registration of a company after it has been placed in liquidation and taken off the register. That has the effect of resurrecting the company as a legal entity which is capable of being sued. Once a writ is issued against the company in such circumstances the responsible insurers will take over the action.

Re-registration, however, has to be done within two years of the company's liquidation – except where it has been struck off the register because the registrar has reason to believe the company has ceased trading. Here the re-registration period is 20 years, though this does not apply in cases where the company has been dissolved after liquidation.

The injustice of this for people who suffer from industrial diseases, which in many cases do not develop for years, is obvious.

Clause 112 was designed to remedy this by amending section 651 to extend the two-year period within which a company can be re-registered to 20 years.

While this represents a welcome improvement in the law, lawyers and consumer organisations say it does not go far enough.

According to Companies House, the costs of re-registering a company can be as much as £400 – a not inconsiderable sum on top of the enormous costs of litigation for claimants not eligible for legal aid. Furthermore, a company will only remain re-registered for the duration of each individual claim. This means the exercise has to be repeated if further cases arise.

But more importantly the clause is not retrospective, so claimants whose former companies were dissolved more than two years before the Companies Bill becomes law will be left without a remedy.

The amendment to clause 112, tabled by the Labour front bench spokesman, Mr John Garrett, would give the claimant a direct, retrospective right to claim against their former company's insurers in respect of the policy of insurance in existence at the time the injury was caused.

This, its proponents claim, would solve the problems attached to re-registration without imposing any greater burden on the insurance company than the liability it accepted and was paid for at the time the policy was agreed.

Mr Francis Maude, Minister for Corporate Affairs, argued that to amend the clause or make it retrospective would place a huge burden on insurers which would ultimately have to be passed on to business customers.

He said that insurers have been able to discount premiums to companies in the knowledge that a certain number of them would go out of business, allowing the insurers to escape liability.

If the liability of insurers was continuing, premiums would have to rise substantially to the point where, in some businesses where margins were tight, they might be the critical factor that tipped the company into liquidation. Extension of the period for re-registration was sufficient to meet the problems of claimants such as Mrs Bradley.

Re-registration has to be done within two years of a company's liquidation

Whatever the merits of the respective arguments, there is little doubt that the re-registration process has its difficulties. They are highlighted by the Upper Clyde Shipbuilders cases.

Upper Clyde Shipbuilders employed thousands of shipyard workers in the 1960s and during the seventies inherited the liabilities of four other large Clyde shipyards which in turn had employed many thousands of workers over the years.

In 1986, the company went into liquidation. Because of the number of actual and potential claimants the unions involved obtained an order to have the company re-registered.

An order was granted, but only on the basis that the unions guaranteed to meet the administrative costs of the liquidation, maintain the company's records and pay for the processing of any claims.

The General and Municipal Boilermakers Union in Glasgow estimates that it contributes £3,000 per year on average to enable its members to claim against the company and that it will continue to do so.

If no union was involved, these costs would either have to be met in the form of legal aid or would fall on the individuals concerned.

Proponents of the clause 112 amendment will try again to have it adopted at third reading towards the end of July.

In the meantime, they have requested urgent talks with the Department of Trade and Industry to see if a more acceptable solution cannot be hammered out in time.

LEGAL APPOINTMENTS

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	55.69	56.36	59.96	4.57	40000
Gilts & Fixed Int	6	108.6	108.6	115.1	8.69	40001
High Inc Equity	6	134.1	137.0	145.8	4.36	40002
Worldwide Bond	6	206.1	206.1xd	218.4	4.44	40003
Capital Growth						
American Growth	5	190.6	190.0	203.9	0.95	40004
Asian Pacific	6	95.41	95.41	102.1	1.27	40005
Assets & Earnings	6	158.3	158.3	169.9	2.18	40006
Capital Reserve Acc	0	85.31	85.31	85.37	4.69	40007
Commodity & Energy	6	101.7	101.7	108.8	1.75	40008
1992 Enterprise	6	58.13	59.29	63.80	2.85	40097
European Capital	6	89.00	89.74	95.97	0.79	40009
General	5	177.1	180.0	191.5	2.35	40010
International	–	46.91	47.02	50.03	1.00	–
Japan	6	111.50	111.5	119.3	0.00	40011
Mastertrust	6	86.71	86.91xd	92.96	1.83	40012
UK Growth Acc	6	202.5	202.5	216.6	1.29	40013
UK Growth Dist	6	135.1	135.1	144.5	1.30	40014
US Emerging Cos	6	55.27	57.12	60.77	0.00	40015
Income & Growth	6	297.0	297.0xd	317.7	3.33	40016
Ethical	6	49.00	50.14xd	53.25	1.87	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace Aberdeen AB9 1QJ 0800 833580

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 01-480 72[illegible]

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green W12 8SD 01-740 70[illegible]

CIBC Unit Tst Managers plc (1200)H
Cottons Ctr, Cottons Lane, Ldn SE1 2QL 01 234 60[illegible]

CS Fund Managers Limited (1000)H
125 High Holborn London WC1V 6PY

Canada Life Unit Tst Mgrs Ltd (1200)F
2-6 High St, Potters Bar Herts 0707 51[illegible]

Cannon Fund Managers Ltd (0700)H
1 Olympic Way Wembley, HA9 0NB
01-902 8876 Dealing 0800 282[illegible]

Capability Trust Mngrs Ltd (1200)F

[illegible]

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate London EC2R 6BA 01-588 9963

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will normally deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

[illegible]

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway London WC2B 6SD						01-405 8331
Capital & Equity	5	62 23	65 87	70 67	4.82	41599
European	5	63 93	67 15	72 56	0.09	46301
Far Eastern	5	60 75	60 89	64 77	0.70	46304
Growth Inc	5	38 89	92 27	98.16	3.40	41600
Growth Acc	5	28 89	92 27	98 16	3.40	—
Income Inc	3	34 85	86 51	92 03	4.66	41601
Income Acc	5	84 45	86 51	92 03	4.66	—
Property Share	5	54 91	54 91	58 53	0.99	41602
Smaller Co's	5	59 21	62 50	66 49	1.44	41603
Nth American	5	64 72	64 72xd	69 22	1.54	41629
International	5	[illegible]	49 24xd	52 59	1.41	41210
Wright Seligman Fund Mngrs Ltd (1000)H						
21 Bloomfield St London EC2M 7AY						01-588 0592
Growth	5	110 61	110 61xd	115 61	1.14	[illegible]
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Westgate Pk, Fenay Bdge Huddersfield						0484 602250
Yorkshire General	5¼	63 13	65 65xd	69 84	2.61	41505
YTU [illegible]	5¼	60 61	62 78	66 79	1.57	[illegible]
YTU [illegible]	5¼	51 28	51.28	54 54	[illegible]	[illegible]

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd				
Int'l Exmt June 7	483.5	503 01	—	40195
Cent. Bd. of Fin. of Church of England				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Inv Fund May 31		515 45	4 73	40251
Fxd Int Sec May 31		139 45	10 25	40252
Deposit May 31		100 00	12 45	40253
Charinco/Charishares (1000)F				
33 King William Street, EC4R 9AS				01-280 2860
[illegible] Inc June 21	[illegible]	164.1xd	9 83	40254
[illegible] Acc June 21	655 1	681 50	9 83	40255
[illegible] Inc June 21	147 0	155 2xd	3 66	40256
[illegible] Acc June 21	164 5	179 6	3 66	40257
Charities Official Invest. Funds				
2 Fore Street London EC2Y 5AQ				01-588 1815
Income May 31		487 57	4 90	40258
Accum May 31		1829 94	—	40259

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	City-line
American	134.0	142.0	–	43285
Building Soc. Fd.	171.0	180.0	–	43286
Balanced	286.0	302.0	–	43287
European	182.0	192.0	–	43289
GT Managed	178.0	188.0	–	d3290
Gartmore Mngd.	119.0	126.0	–	43291
German	128.0	135.0	–	43292
Gilt	180.0	190.0	–	43295
Global	48.0	51.0	–	–
High Inc.	123.0	130.0	–	43294
International Equity	200.0	211.0	–	43295
Japan	237.0	250.0	–	d3296
Managed	64.0	68.0	–	43297
Property	283.0	298.0	–	43298
O W Imperial Gold	148.0	156.0	–	43299
UK Equity	366.0	386.0	–	43300
Pension Funds				
American	152.0	160.0	–	43301
Building Soc. Fd.	171.0	180.0	–	43302
Balanced	221.0	233.0	–	43303
European	180.0	190.0	–	43305
German	113.0	119.0	–	d3308
Gilt	155.0	164.0	–	43309
International Equity	144.0	152.0	–	43310
Japan	136.0	144.0	–	43311
Managed	65.0	69.0	–	d3312
Property	217.0	229.0	–	43311
UK Equity	332.0	350.0	–	4331d

Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4BE 0539 33733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Grwth Mngd	598.9	630.2	–	43315
Adventurous Mngd	128.5	135.5	–	46402
Secure Mngd.	109.2	115.1	–	46403
Cash Fd	233.7	246.3	–	d3316
Property Fund	287.1	305.5	–	43317

Prudential Holborn Pensions Ltd—Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Communications	106.4	112.1	–	43537
Smaller Companies	100.7	114.5	–	43538
International Small Cos	131.6	138.6	–	46559

Prudential Pensions Limited

Holborn Bars, London EC1N 2NH 01-405 9222

	Bid Price	Offer Price	Yield Gross	City-line
Discretionary June 21	£155.67	161.19	–	43539
Equity June 21	£164.91	176.22	–	43540
International June 21	£26.33	27.14	–	43541
Intl Bond June 21	£12.99	13.06	–	43542
Fixed Int June 21	£71.55	72.51	–	43543
Index Linked June 21	£60.03	60.79	–	43544
Property June 21	£109.83	116.37	–	43545
Cash June 21	£20.9407	20.9407	–	43546
Pru-Linked Retirement Plan				
Managed June 21	382.7	398.7	–	43547
Cash June 21	196.7	204.9	–	43548
Prudential Pensions Investment Account				
Pens Mngd June 23	153.7	165.4	–	43549
Pens UK Eq June 23	306.4	330.5	–	43550
Pens Intl June 23	185.2	199.4	–	43551
Pens Fixed June 23	160.0	172.2	–	43552
Pens Index Lk June 23	153.1	161.6	–	43553
Pens Cash June 23	128.4	135.3	–	d3554

Regency Life Assurance Co Ltd

Regency Hse, Lanark Sq, London E14 9JS 01-538 8300

	Bid Price	Offer Price	Yield Gross	City-line
Aggressive Ptflio Fd.	119.9	126.2	–	43555
Balanced Ptflio Fd.	311.6	330.1	–	d3556
Cautious Ptflio Fd	121.3	127.6	–	43557
Elite Fund	109.7	114.8	–	43558
European Fund	86.6	91.1	–	43559
Far East Fund	109.4	115.1	–	d3560
Fixed Interest Fund	238.6	251.1	–	43561
International Fund	276.5	291.9	–	43562
Money Fund	176.9	186.2	–	43563
N. American Fd	121.4	127.7	–	43564
Property Fund	d12.3	433.9	–	43565
UK Equity Fd	382.2	402.3	–	43566

Scottish Equitable Life Assce. Soc.

28 St Andrew Sq, Edinburgh 031-556 9101

Skandia Life Assurance Co Ltd—Contd.

Target Life Assurance Co Ltd—Contd.

O'Halloran & Co/Countrywide

7 Cavell Ct, North St, Peterborough PE1 1RA 0733 44830

PBR Fund Management Ltd

16 Northumberland Avenue, WC2N 5AP 01-839 6876

Roxborough Financial Management Ltd

Rothschild Asset Management—Contd.

Bamford Brandt Guernsey Mngt. Ltd

The Bangkok Fund

Baring Fund Managers (Guernsey) Ltd

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

GUERNSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

[illegible]

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FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,400	Exch 10pc 1989	99[illegible]	14.04	28.12	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99[illegible]	13.45	20.2	24Mar 24Sep	1256
601	Treas 5pc 1986–89	98	11.25	9.3	15Apr 15Oct	1329
174	Exch 10¼pc Cv '89	98[illegible]	12.69	10.4	15Mar 15Nov	1255
1,000	Treas 13pc 1990	100[illegible]	12.33	8.6	15Jul 15Jan	1300
900	Treas 2pc IL '90 (84.6)	129[illegible]	[illegible]	19.6	25Jan 25Jul	1311
1,400	Exch 11pc 1990	98[illegible]	13.22	6.1	12Aug 12Feb	1257
1,250	Exch. 12½pc 1990	99[illegible]	13.11	13.2	22Sep 22Mar	1262
550	Treas 3pc 1990	93[illegible]	10.50	3.4	6Nov 8May	1325
600	Treas 8¼pc 1987–90	95[illegible]	12.76	9.5	15Dec 15Jun	1340
955	Treas. 8pc Cv 1990	95[illegible]	12.47	9.6	16Jul 16Jan	4680
1,887	Treas. 10pc Cv 1990	96[illegible]	12.77	20.3	25Apr 25Oct	1285
500	Exch 2½pc 1990	90[illegible]	9.47	17.4	22May 22Nov	1270
2,200	Treas 11¾pc 1991	98[illegible]	12.58	5.6	10Jan 10Jul	1292
400	Funding 5¾pc '87–91	91[illegible]	11.19	3.3	5Oct 5Apr	1275
400	Treas. 3pc 1991	88[illegible]	9.53	6.4	[illegible]	1336
646	Treas 10pc Cv '91	95[illegible]	12.40	5.6	12Jan 12Jul	1336
1,550	Exch 11pc 1991	97[illegible]	12.12	20.3	25Apr 25Oct	1258
2,350	Treas. 8pc 1991	91[illegible]	12.05	4.5	10Jan 10Oct	1335
900	Treas. 12¾pc 1992	102[illegible]	11.68	15.6	22Jul 22Jan	1297
1,800	Treas 10pc 1992	96[illegible]	11.79	16.1	21Aug 21Feb	1283
1,400	Treas. 8pc 1992	91[illegible]	11.75	7.3	13Oct 13Apr	1337
1,298	Treas 10½pc Cv 1992	97[illegible]	11.64	31.3	7Nov 7May	1289
500	Treas. 3pc 1992	83[illegible]	9.49	5.5	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	101[illegible]	11.61	19.1	25Feb 25Aug	1265
1,757	Exch 13½pc 1992	104[illegible]	11.59	13.2	22Mar 22Sep	1266
950	Treas 8¼pc 1993	90[illegible]	11.41	17.1	18Aug 18Feb	–
1,850	Treas 10pc 1993	96[illegible]	[illegible]	9.3	15Oct 15Apr	1279
1,100	Treas 12½pc 1993	103[illegible]	[illegible]	7.6	14Jan 14Jul	1296
600	Funding 6pc 1993	85[illegible]	[illegible]	6.2	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993	108[illegible]	[illegible]	17.4	23May 23Nov	1304
2,050	Treas 8½pc 1994	90[illegible]	[illegible]	28.12	3Aug 3Feb	–
600	Treas 14½pc 1994	112[illegible]	[illegible]	23.1	1Sep 1Mar	1307
1,100	Exch 13½pc 1994	107[illegible]	[illegible]	21.3	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994	95[illegible]	12.03	3.5	9Dec 9Jun	1284

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,550	Exch 12¼pc 1994	104[illegible]	11.28	16.1	22Feb 22Aug	1263
2,600	Treas 9pc 1994	91[illegible]	12.04	10.4	17May 17Nov	1345
2,350	Treas 12pc 1995	103[illegible]	11.36	19.6	25Jul 25Jan	1294
229	Exch 3pc Gas 90–95	75	8.51	28.3	1Nov 1May	1271
2,100	Exch 10¼pc 1995	96[illegible]	11.09	14.6	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995	107[illegible]	11.90	10.8	15May 15Nov	1298
920	Treas 14pc '96	112[illegible]	11.17	25.6	22Jul 22Jan	1305
750	Treas 9pc 1992–96	91[illegible]	10.76	6.2	15Sep 15Mar	1344
1,350	Treas 15¼pc 1996	119[illegible]	11.05	28.3	3Nov 3May	1309
600	Exch 13¼pc 1996	110[illegible]	10.99	10.4	15Nov 15May	1268
1,104	Conversion 10pc 1996	95[illegible]	10.92	10.4	15May 15Nov	1240
1,500	Treas 13¼pc 1997	111[illegible]	10.95	15.6	22Jul 22Jan	1302
3,100	Exch 10½pc 1997	97[illegible]	10.93	16.1	21Aug 21Feb	1253
3,750	Treas 8¾pc 1997	89[illegible]	10.70	23.1	1Mar 1Sep	1341
1,000	Exch 15pc 1997	120[illegible]	11.11	21.3	27Apr 27Oct	1269
2,850	Exch. 9¾pc 1998	94[illegible]	10.77	12.6	19Jul 19Jan	1273
1,000	Treas 6¾pc 1995–98	79[illegible]	10.32	28.3	1Nov 1May	1331
1,100	Treas. 15½pc '98	126[illegible]	10.95	21.2	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	106[illegible]	10.85	13.4	20Mar 20Nov	1259
1,250	Treas 9½pc 1999	94[illegible]	10.49	8.6	15Jul 15Jan	1347
2,900	Exch 12¼pc 1999	108[illegible]	10.82	17.2	26Sep 26Mar	1264
1,252	Treas. 10½pc 1999	98[illegible]	11.71	12.4	19Nov 19May	1288
1,550	Conversion 10¼pc 1999	97[illegible]	10.67	17.4	22May 22Nov	1242
1,200	Treas. 8½pc Ln 2000	87[illegible]	13.48	21.6	28Jan 28Jul	1338
1,554	Conversion 9pc 2000	90[illegible]	13.42	25.1	3Sep 3Mar	1244
1,317	Treas. 13pc 2000	114[illegible]	13.77	7.6	14Jan 14Jul	1299
1,050	Treas 10pc 2001	96[illegible]	10.48	20.1	26Aug 26Feb	1290
1,250	Treas. 14pc '98–01	116[illegible]	10.05	17.4	22Nov 22May	1306
800	Conversion 9¾pc 2001	95[illegible]	10.44	4.1	10Feb 10Aug	1248
2,600	Exch. 12pc '99–02	108[illegible]	10.86	25.6	22Jul 22Jan	1261
716	Conversion 10pc 2002	97[illegible]	10.34	6.3	11Oct 11Apr	1241
1,450	Treas 9¾pc 2002	95[illegible]	10.33	23.1	27Feb 27Aug	1349
1,300	Exch. 9pc 2002	90[illegible]	10.25	12.4	19May 19Nov	1272
1,800	Treas. 13¾pc 2000–03	118[illegible]	10.23	19.6	25Jan 25Jul	1303
1,000	Treas 10pc 2003	98[illegible]	10.20	30.1	8Mar 8Sep	1281
1,900	Treas 11½pc 2001–04	105[illegible]	10.62	10.2	19Sep 19Mar	1290
900	Treas. 10pc 2004	98[illegible]	10.14	11.4	15[illegible]	1282

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

ISLE OF MAN (**)

LUXEMBOURG (**)

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
192.7	Cullinet Sftwr 1c	597p	–	–	–	–	–
1,198.5	Dana Corp. $1	26¼	$1.60	3.8	30.5	Mr Je Se De	2306
513.9	Data General	11⅛	–	–	–	–	–
6,781.6	Dun & Bradstreet $1	36½	$2.00	5.5	13.2	Mr Je Sp De	–
1,683.4	Eaton Corpn. 50c	39⅞xd	$2.00	3.2	1.2	F My Au N	2410
642.1	Echlin Inc	10½xd	70c	4.1	3.4	JaApJulOct	–
2,636.9	FPL Group 1c	19⅝xd	$2.28	7.3	23.11	MrJnSepDec	–
16,547.2	Ford Motor $1	31⅛	$3.00	6.0	27.4	Mar Jun S O	2615
827.2	GATX 62½c	44¼	$2.00	2.9	12.6	Mar Jun S O	2662
31,883.3	Gen. Elect. 6¾c	34¾	$1.64	3.0	7.6	Ja Ap Je Oc	2675
–	General Host Corp $1	541p	30c	5.5	13.12	–	–
2,999.8	Gillette $1	25⅝	96c	2.3	27.1	Mar Jun S O	2695
275.1	Gt Am First Svgs Bk $1	839p	60c	4.5	28.10	[illegible]	–
862.1	Greyhound $1½	22¼	$1.32	3.8	30.5	Ja Ap Jy Oc	2778
699.8	Hasbro Inc 50c	13¼	16c	0.8	2.5	Ja No Au My	–
2,876.4	Honeywell $1½	47⅜	$2.10	2.8	23.5	Mar Jun S O	2919
2,461.5	Houston Inds.	20⅝	$2.96	9.1	10.11	Mr Je Se Oc	–
42,054.9	IBM Corpn $1¼	78¼xd	$4.84	4.3	5.5	Mar Jun S O	2986
1.06	Image Storage/R.Sys.1c	50p	–	–	–	–	2961
1,424.7	Ingersoll-Rand $2	27xd	$1.20	2.8	16.5	Mar Jun S O	2979
2,017.4	Lockheed Crpn $1	30¾xd	$1.60	3.3	15.2	Mar Jun S O	–
334.1	Lone Star Inds $1	20¼xd	$1.90	5.9	12.6	May Au N Mar	3216
723.2	Louisiana Land 15c	23⅛xd	$1.00	2.7	26.5	Mar Jun S O	3222
644.0	Lowe's 50c	16¼	48c	1.9	4.1	Jan Ap Jly Oc	–
1,176.4	Manuf. Hanover $1	24½	$3.28	8.5	26.6	Jan Ap Jly Oc	3274
2,080.5	Merrill Lynch $1	10⅝	$1.00	3.3	31.10	Feb My Au N	3351
502.9	Mules Inc	1962p	32c	–	–	–	3397
4,525.3	Morgan (JP) $2½	25¼xd	$1.66	4.2	21.12	Jan Ap Jly O	3418
11,116.3	NYNEX $1	51⅞	$4.36	5.3	27.6	F May Au N	–
400.1	PHH Corp.	23⅝	$1.12	3.0	4.4	Ja Ap Jy Oct	–
–	Pacific Agr	242p	–	–	–	–	–
1,817.6	Pacificorp $3¼	26¼	$2.76	6.4	19.4	Feb My Ag No	–
11,248.8	Pacific Telesis 10c	26¼	$1.88	4.6	12.85	Fe My Au No	–
744.6	Pall Corp. 25c	20⅛	48c	1.5	24.1	Fe My Au No	–
[illegible]							

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

Market Cap. £m	Stock
38.4	Breedon
4.54	BB & EA
29.4	British Dredging
196.9	Bryant Group
8.06	Bucknall Austin
46.8	CALA 5p
4.76	CCS Group 20p
543.2	CRH
6.93	Cakebread Robey
202.5	Caradon 5p
11.2	Carron Phoenix
13.9	Colroy 10p
68.4	Conder Group
18.3	Copson (F.) 5p
583.2	Costain Group
79.6	Countryside Pr
152.5	Crest Nichol 10
36.7	Do 5½pc Cv Cm
5.73	Creston 10p
14.0	Crosby (James)
61.5	Douglas (Robt.)
6.82	Dunton Group
23.7	EBC 50p
21.0	Edmond Hldgs 1
20.8	Erwin Group 1
30.0	Erith
24.7	Eve Group
273.1	Evered
58.7	Fairbriar 10p
17.4	Fed. Housing
25.1	Finlan Group
13.2	Freeman Group
63.7	Galliford 5p
[illegible]	

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

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INSURANCES—Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING – Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

Australians

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

MINES—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
4.12	Ayer Hitam SM1	45	[illegible]	[illegible]	9.3	Apr Nov	1714
12.0	Gopeng Berhad [illegible]	75	010c	3.3	13.3	–	2726
	For Jantar see Industrials						
296.8	Malaysia Mng. 10c	71	Q5c	1.7	17.4	Dec Aug	3272
18.2	Petaling SM1	188	Q87c	11.6	5.6	Dec July	3644

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	98	–1
Craig & Rose £1 γ	720	......
Finlay Pkg. 5p γ	88	......
Holt (Jos) 25p γ	1310	–23

IRISH

Cap 9½% Ln. 1991	£98	......
9pc Cap Ln 1996	£90½	......
Fin. 13% 97/02	£119	......
Arnotts	425	......
Carrol (P.J.) γ	145xd	......
Hall (R. & H.)	168	......
Heiton Hldgs. γ	71	......
Irish Ropes	283	......
United Drug	134	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	45
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Beecham	50
Blue Circle	48
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI Babcock	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	380
Jaguar	22
Ladbroke	48
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	38
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	40
RHM	42
Rank Org Ord	80
Reed Intnl	34
STC	32
Sears	10
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property	
Brit Land	32
Land Securities	52
MEPC	50
Randsworth	28

Oils	
Brit Petroleum	21
Burmah Oil	58
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines	
Cons Gold	100
Lonrho	30
RTZ	40

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Britain faces another Armada

BRITAIN'S RELATIONS with Spain have shown a marked improvement since the days when Sir Francis Drake repelled the Armada, but one cannot help but wonder whether all has been forgiven and forgotten.

As Mrs Margaret Thatcher, the UK Prime Minister, prepares to join tha European Community summit in Madrid she may be tempted to see herself in the role of Queen Elizabeth I and Mr Felipe Gonzalez, Spanish Prime Minister, as a king of similar forename.

Their views on how Europe should develop are not as far apart as their predecessors but it can hardly be said that there is much common ground on the subject of economic and monetary union. In his letter formally inviting the other 11 heads of government to the EC summit, starting today, Mr Gonzalez told fellow European Community leaders they have to adopt a decision now on economic and monetary union.

The summit will consider a three-stage plan for this, drawn up by the Delors Committee. Britain is expected to accept only the first phase, committing sterling to join the ERM at an unspecified date.

Mr Gonzalez is one of the community leaders advocating full monetary union and is strongly backed by West Germany, France and Italy. Spain's announcement about a week ago that the peseta was joining the full European Monetary System exchange rate mechanism (ERM) saems hardly to be a coincidence and raises the question of how much pressure this puts on Mrs Thatcher to allow sterling to become a full member.

Mr Roger Bootle, chief UK economist at Greenwell Montagu Gilt-Edged, believes the pressure has increased but that Mrs Thatcher will resist it for about another year. The economics team at S.G. Warburg Securities has come to a similar conclusion that at present the Prime Minister will avoid full membership of the system.

Mr Bootle added that the UK Government is being driven into a corner on economic policy, where it has a choice between higher interest rates or rising inflation. He believes that politically thare is only one more shot in the gun, as far as interest rates are concerned. Base rates may go to 15 or 16 per cent, but a further rise will be politically unaccaptahla to a Government needing to increase its popularity ahead of the next general election. He suggests that Mrs Thatcher may then turn to the ERM as a way of easing pressure on the pound without raising rates.

Warhurg's economists believe there could be a decline in UKinterest rates to 12 per cent if sterling soon becomes a full EMS member, but this is not advisable on domeatic grounds and high UK inflation would soon increase fears of a pound devaluation, making an interest rate fall only temporary.

Sterling lost ground to the D-Mark last week, but rumours on Friday that the pound was about to join the ERM may have been a reason that it did not fall below DM3.04, even through there was strong speculation that the pound was heading for DM3.00. Sterling's jump from DM2.9975 to DM3.0475 in a single day on March 7, 1988 leaves a lack of technical support between DM3.00 and DM3.04.

As this week begins, with the pound atill outside the ERM, there are two main hopes that another rise in base rates can be avoided. The first is that the dollar will continue to weaken and the second is that tomorrow'a UK trade figures will be better than feared.

A May trade deficit little changed from April's £1.66bn is expected, but figures above £1.8hn have been suggested and such a result would only put further pressure on sterling and interest rates.

Colin Millham

£ IN NEW YORK

June 23	Close	Previous Close
£ Spot	1.5645-1.5665	1.5590-1.5595
1 month	0.55-0.53pm	0.56-0.53pm
3 months	1.75-1.70pm	1.75-1.70pm
12 months	6.75-6.60pm	6.70-6.50pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 23	Previous
8.30 am	90.2	90.6
9.00 am	90.2	90.6
10.00 am	90.3	90.5
11.00 am	90.3	90.5
Noon	90.3	90.5
1.00 pm	90.3	90.6
2.00 pm	90.4	90.7
3.00 pm	90.4	90.6
4.00 pm	90.3	90.6

CURRENCY RATES

June 23	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling ‡	-	1.24641	1.47060
U.S. Dollar	7	1.25119	1.06463
Canadian $	12.39	1.49142	1.26701
Austrian Sch.	5	17.2164	14.5682
Belgian Franc	7.25	51.2237	43.3026
[illegible]	[illegible]	[illegible]	[illegible]

* Selling rate. † European Commission Calculations. All SDR rates are for June 22

CURRENCY MOVEMENTS

June 23	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.3	-20.3
U.S. Dollar	71.0	-6.2
Canadian Dollar	103.8	+0.4
Austrian Schilling	106.5	+9.7
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)*Rates are for June 22

OTHER CURRENCIES

June 23	£	$
Argentina	353.00-356.30	226.00-228.00
Australia	2.0295-2.0320	1.3005-1.3015
Brazil	2.1525-2.1645	1.3780-1.3850
Finland	6.7785-6.8010	4.3420-4.3470
Greece	259.30-263.80	167.35-170.05
Hong Kong	12.1630-12.1830	7.7940-7.7960
Iran	114.50*	74.20*
[illegible]	[illegible]	[illegible]

*Selling rate

EURO-CURRENCY INTEREST RATES

June 23	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 9¼-9⅛ per cent; three years 9¼-9⅛ per cent; four years 9¼-9⅛ per cent; five years 9¼-9⅛ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

June 23	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.329	0.516	1	71.36	3.394	0.858	1.126	725.1	0.615	20.92
YEN	4.613	7.228	14.01	1000.	47.56	12.03	15.77	10161	8.612	293.1
F Fr.	0.970	1.520	2.947	210.3	10.	2.530	3.317	2137	1.811	61.64
S Fr.	0.383	0.601	1.165	83.13	3.953	1	1.311	844.7	0.710	24.37
H Fl.	0.292	0.458	0.888	63.39	3.015	0.763	1	644.2	0.546	18.58
Lira	0.454	0.711	1.379	98.41	4.680	1.184	1.552	1000.	0.847	28.85
C $	0.536	0.839	1.627	116.1	5.522	1.397	1.832	1180	1	34.04
B Fr.	1.574	2.466	4.780	341.1	16.22	4.104	5.382	3467	2.938	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

Rates firm as pound looks fragile

SHORT TERM rates were firm in London on Friday. The Bank of England did not give enough help to the London money market, according to its own forecast. This kept weekend money tight and looked like a a subtle move to dater speculation against a fragile pound.

Three-month interbank, an important guide to the level of base rates, hovered around the bank base rate level of 14 per cent for most of last week, after the previous Friday's refusal hy the Bank of England to accept low hids at the Treasury bill tender. This was taken as a strong signal that base rates are not to rise at present.

UK clearing bank base lending rate 14 per cent from May 24

Nevertheless hy the end of the week the market was becoming increasingly nervous about tomorrow's UK trade figures, with forecasts for the May current account deficit tending to be revised up from earlier estimates of around £1.66hn.

Apart from the European summit in Madrid and the UK trade figures the other main area of attention this week will be the West German Bundesbank's council meeting. A rise in the discount or Lombard rates would create obvious prohlems for theUK at a time wheo inflation is rising and the pound is weakening against the D-Mark

The Bundeshank tightened credit conditions in Frankfurt last week, but a change in official ioterest rates is most unlikely at present. The central bank has warned about the dangers of rising inflation from Germany's strong economy, but this is regarded as a signal that rates may have to rise later in the year rather than now.

POUND SPOT- FORWARD AGAINST THE POUND

June 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

June 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT LONDON INTERBANK FIXING

(11.00 a.m. June 23)	3 months US dollars		6 months US Dollars	
	bid 9⅛	offer 9¼	bid 9⅛	offer 9¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK	Treasury Bills and Bonds
[illegible]	[illegible]

June 23	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

June 23	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

	June 23	June 16		June 23	June 16
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

	June 23	change		June 23	change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY JUNE 23 1989 US Dollar Index	% change since Dec30 '88	Pound Sterling Index	Local Currency Index	% change local currency since Dec30 '88	Gross Div. Yield	THURSDAY JUNE 22 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989 High	1989 Low	Year ago (approx)
Australia (84)	132.30	-8.4	125.17	114.48	+1.7	5.15	133.92	127.84	114.81	157.12	126.26	146.63
Austria (19)	123.84	+29.1	117.17	125.17	+41.2	2.12	123.47	117.89	125.48	124.16	92.84	84.25
Belgium (63)	129.58	-4.1	122.60	130.22	+4.6	4.22	129.12	123.26	130.39	137.10	125.58	121.05
Canada (123)	141.27	+12.5	133.66	121.88	+12.3	3.28	138.79	132.49	120.71	141.80	124.67	126.91
Denmark (38)	195.98	+15.0	185.40	200.96	+26.4	1.68	193.65	184.87	200.17	195.96	165.35	126.89
Finland (26)	141.62	+8.2	133.99	129.12	+12.9	1.63	141.08	134.68	129.12	159.18	125.81	133.38
France (128)	122.05	+6.1	115.47	125.92	+15.2	3.01	119.26	113.85	124.45	122.79	112.57	96.18
West Germany (100)	90.72	+3.1	85.83	91.45	+12.7	2.22	89.45	85.39	91.12	90.72	79.56	74.55
Hong Kong (46)	82.23	-17.5	67.26	92.30	-17.5	5.80	92.77	88.56	92.84	140.33	86.41	109.20
Ireland (17)	134.69	+2.2	127.43	133.13	+11.8	3.05	135.17	129.04	133.38	151.36	125.00	137.39
Italy (97)	84.41	-0.8	79.87	88.51	+6.7	2.51	83.34	79.56	88.57	86.88	74.87	71.98
Japan (455)	181.04	-5.5	171.29	158.38	+4.7	0.50	176.70	168.69	157.49	200.11	164.22	163.85
Malaysia (36)	179.35	+26.0	169.68	186.46	+24.5	2.57	179.37	171.24	186.56	185.03	143.35	151.50
Mexico (13)	264.33	+63.3	250.09	721.38	+78.2	0.70	271.98	259.65	713.84	271.98	153.32	167.70
Netherland (42)	120.82	+7.5	114.31	120.38	+17.2	4.30	118.24	113.83	120.05	122.22	110.63	104.75
New Zealand (24)	67.64	+0.1	63.99	81.17	+7.3	6.07	67.74	64.67	61.28	76.02	62.64	81.45
Norway (26)	182.44	+31.3	172.61	174.96	+41.3	1.47	178.83	168.81	170.89	198.39	139.92	124.65
Singapore (26)	159.26	+27.3	150.69	143.33	+27.8	1.94	159.52	152.29	143.84	181.98	124.57	123.29
South Africa (60)	146.61	+25.5	138.71	128.96	+31.3	4.15	145.81	139.20	128.26	146.81	116.35	124.13
Spain (43)	148.38	+0.0	140.38	136.53	+9.8	3.62	148.29	141.56	140.08	158.17	143.14	156.09
Sweden (35)	165.96	+14.5	156.64	160.97	+22.3	2.13	164.31	156.86	160.97	165.58	138.45	118.36
Switzerland (57)	81.29	+4.1	76.91	83.86	+15.3	2.29	79.81	76.29	83.60	81.29	67.81	79.92
United Kingdom (314)	140.36	+3.7	132.79	132.79	+19.7	4.40	139.86	133.52	133.52	153.33	133.28	134.15
USA (555)	133.62	+16.1	126.43	133.62	+16.1	3.36	131.44	125.48	131.44	133.82	112.13	111.67
Europe (1005)	119.15	+3.6	112.73	116.82	+16.2	3.51	118.03	112.68	118.84	121.70	112.63	106.96
Nordic (125)	161.13	+15.4	152.46	153.39	+24.5	1.86	159.35	152.12	152.52	161.13	137.95	115.14
Pacific Basin (674)	175.93	-5.8	166.45	154.32	+4.3	0.73	172.00	164.20	153.81	194.72	160.44	160.58
Euro-Pacific (1679)	153.27	-2.8	145.01	139.29	+7.8	1.61	150.48	143.65	139.58	164.22	141.58	139.39
North America (678)	133.99	+17.7	126.77	132.90	+17.7	3.35	131.84	125.86	130.78	133.99	112.79	112.59
Europe Ex. UK (691)	105.57	+3.6	99.88	108.93	+13.3	2.85	104.11	99.39	108.53	105.67	96.30	90.07
Pacific Ex. Japan (219)	114.78	-7.8	108.58	103.79	-2.7	5.01	115.74	110.49	104.15	137.65	111.81	126.36
World Ex. US (1875)	152.85	-2.1	144.62	138.81	+6.1	1.69	150.13	143.33	138.50	162.77	141.49	138.91
World Ex. UK (2116)	145.44	+3.8	137.61	137.46	+10.4	2.03	142.73	136.26	136.20	148.04	136.98	127.78
World Ex. So. Af. (2370)	144.96	+3.7	137.15	137.07	+11.1	2.23	142.44	135.99	135.99	146.65	136.57	128.35
World Ex. Japan (1975)	127.89	+11.5	121.00	128.15	+16.4	3.48	126.26	120.55	124.95	127.69	114.51	111.31
The World Index (2430)	144.87	+3.8	137.18	137.01	+11.2	2.24	142.48	136.00	135.93	146.51	136.68	128.33

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes: Insert: Hafslund Nycomed A Free (Norway)(23/6/89). Deletions: Kelly Douglas (Canada)(20/6/89), North Kalgurli (Australia), Ogilvy Group, Utd Cable TV (both US)(21/6/89) and Brick & Pipe (Australia)(23/6/89). Name Change: Zayre Corp. to TJK (US)(23/6/89).
Markets closed June 23: Finland and Sweden.

EUROPEAN OPTIONS EXCHANGE

Series		Vol	Last	Vol	Last	Vol	Last	Stock
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TOTAL VOLUME IN CONTRACTS : 53,345
A=Ask B=Bid C=Call P=Put

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renun. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renun. Date	1989 High	1989 Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renun. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

	%		%		%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JOTTER PAD

CROSSWORD

No.6,969 Set by COURTIER

ACROSS

1 See 4
4 and 1 New York courts where racketeers are tried
10 Record it: I seem to reform (7)
11 550 in advance through river; right, like Donald! (7)
12 See 30 (4)
13 Showman claims to be Bush: a commotion nearly follows (10)
15 and 8 Taffies rose or garland entwined – for a winner on this Parisian site? (6,6)
16 Reform ring to admit native (7)
20 Settled early to help with the homework (3-4)
21 Short of visionary, it's boring (6)
24 and 26 A fifties country group at scene of current entertainment (3,7,4)
28 High-level embarkation (7)
29 Temporary filling at some stage perhaps (5,3)
30 and 12 Confused friends left grounds at Melbourne venue (3,4)
31 Two or four can be taken to court for it (6)

DOWN

1 The lead in La Mer? (4,4)
2 Sort of rude glare – at Cole maybe? (4,5)
3 Avoid decapitation – could become a poet (4)
5 Threatening a price reduction (6)
6 Swaggering way off the beaten track (4,6)
7 Lazy person may be riled (5)
8 See 15
9 Appears, but ducks back (5)
14 A fairly vacant outlook (2,4,4)
17 Where men and women are engaged today love means nothing (9)
18 Sick about a method of summons, be sacked (5)
19 Roman officers, brutes in conflict (8)
22 and 27 Where immortality is assured (4,2,4)
23 Sang stridently, hiding a feeling of remorse (5)
25 Indian garment a foreign soldier produces following direction (5)
27 See 22

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 8.

WORLD STOCK MARKETS

TOKYO - Most Active Stocks

Friday June 23 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
MHI	82.2m	1,250	+30	Hitachi Zosen	12.2m	869	+29
KHI	71.5m	1,200	+30	Showa Wire	11.6m	1,370	+10
Fuji Heavy Cpl	17.4m	1,080	+30	Ohbayashi	10.8m	1,810	+80
Meiko	14.4m	1,210	+20	Mitsui E + S	10.3m	886	+20
Canon	12.7m	2,000	+40	Toshiba	9.7m	1,390	0

INDICES

NEW YORK DOW JONES

	June 23	June 22	June 21	June 20	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2531.87	2482.17	2464.91	2472.88	2531.87 (23/6)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	91.80	91.46	91.78	91.94	92.52 (14/6)	87.35 (23/3)	-	-
Transport	1186.45	1177.88	1170.69	1167.37	1186.45 (23/6)	959.95 (3/1)	1186.45 (23/6/89)	12.32 (8/7/32)
Utilities	210.53	207.21	205.07	205.67	210.53 (23/6)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2536.04 (2489.76) Low 2490.14 (2452.77)

STANDARD AND POOR'S	June 23	June 22	June 21	June 20	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite‡	328.00	322.32	320.48	321.25	328.00 (23/6)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	375.06	368.43	368.21	367.37	375.06 (23/6)	318.66 (3/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	31.13	30.65	30.60	30.80	31.13 (23/6)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	182.86	180.05	179.18	179.50	182.86 (23/6)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	364.25	362.21	361.07	361.72	366.16 (9/6)	305.24 (3/1)	366.16 (9/6/89)	29.31 (9/12/72)
NASDAQ OTC Comp	448.36	445.33	443.86	444.58	453.65 (9/6)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Jun 16	Jun 9	Jun 2	year ago (approx.)
Dow Industrial Div. Yield	3.59	3.51	3.38	3.95
	June 21	June 14	June 7	year ago (approx.)
S & P Industrial div. yield	3.05	3.00	2.98	3.03
S & P Indl. P/E ratio	13.48	13.62	13.75	14.42

TRADING ACTIVITY † Volume Millions

	June 23	June 22	June 21
New York	199.446	179.118	169.811
Amex	15.690	12.732	11.822
OTC	153.145	132.786	136.402

NEW YORK	June 23	June 22	June 21
Issues Traded	1,969	1,942	1,937
Rises	1,065	809	595
Falls	430	615	833
Unchanged	474	518	509
New Highs	149	67	67
New Lows	16	12	22

CANADA

TORONTO	June 23	June 22	June 21	June 20	1989 High	1989 Low
Metals & Minerals	3344.7	3253.8	3237.1	3296.1	3364.9 (6/2)	3207.5 (3/1)
Composite	3773.2	3740.1	3730.4	3747.0	3806.1 (8/6)	3350.5 (6/1)
MONTREAL Portfolio	1908.11	1888.43	1884.17	1899.26	1948.46 (9/6)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Am T & T	8,983,700	37	+ ⅛	IBM	2,127,900	110⅞	+ 1⅛
Prime Comp	3,730,400	19	+ 3¼	Unisys Corp	2,031,800	24⅞	+ ½
Smithkline Beck	2,240,500	62½	+ 1⅛	Gen Electric	1,725,800	54⅞	+ 1⅛
Fst Intr A	2,207,700	1⅝	+ ⅛	Interco	1,461,800	2⅝	- ⅛
Whitman Corp	2,154,900	37⅞	+ 1⅝	Sears Roebuck	1,392,800	44⅞	- ¼

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	June 23	June 22	June 21	June 20	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1510.6	1513.5	1528.2	1536.6	1583.7 (23/5)	1412.9 (7/4)
All Mining (1/1/80)	683.5	681.2	690.8	693.7	727.0 (26/1)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	361.80	364.28	366.67	365.48	366.67 (21/6)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6079.84	6096.00	6126.26	6129.73	6158.43 (13/6)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	(u)	329.37	331.17	334.89 (16/6)	275.49 (27/2)
FINLAND						
Unitas General (1975)	(c)	780.1	783.5	786.0	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	488.3	481.7	481.2	476.4	488.3 (23/6)	417.9 (4/1)
Ind. Tendance (30/12/88)	114.5	113.1	113.0	112.5	114.5 (5/6)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	619.11	618.56	615.05	617.18	619.11 (23/6)	536.78 (27/2)
Commerzbank (1/12/53)	1844.3	1844.2	1829.5	1837.9	1844.3 (23/6)	1595.7 (27/2)
DAX (30/12/87)	1491.20	1483.83	1474.61	1472.11	1491.20 (23/6)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2219.00	2231.82	2272.50	2337.71	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	647.84	646.93	643.44	642.96	651.72 (16/6)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	33530.71	33324.97	33345.28	33233.4	34266.75 (31/5)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2486.23	2473.54	2469.40	2456.63	2544.60 (8/5)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	251.0	250.1	251.6	251.5	251.6 (21/6)	208.3 (3/1)
CBS All Shr (End 1983)	195.4	194.8	195.9	195.9	195.9 (20/6)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	640.81	631.55	630.66	632.56	665.61 (19/4)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1290.29	1294.43	1302.30	1303.12	1310.02 (17/5)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1478.0♦	1475.0	1421.0	1441.0	1639.0 (23/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	2574.0♦	2566.0	2535.0	2530.0	2581.0 (28/4)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	309.04	310.05	311.15	310.54	315.90 (13/6)	268.61 (1/3)
SWEDEN						
Jacobson A P. (31/12/56)	(c)	4126.6	4125.5	4114.8	4137.2 (16/6)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	746.5	745.5	746.8	742.2	746.8 (21/6)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	503.0	494.7	496.0	519.0 (17/2)	487.6 (13/6)

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

4pm prices June 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
23⅞	21⅝	AAR	.44	1.9	16	648	23½	23⅛	23¼	– ⅛
10⅛	8⅞	ACM n	1.01	11.		346	9⅛	9	9⅛	+ ⅛
11⅞	10¼	ACMIn	1.28a	11.		739	11⅛	11	11⅛	+ ⅛
10⅜	8½	ACM M	e1.01	11.		522	9½	9⅜	9⅜	– ⅛
11⅜	10	ACM Sc	1.26	11.		1064	11⅛	11	11	
9⅞	8⅜	ACMSp	1.01	11.		328	9⅛	9	9	– ⅛
17⅛	10⅞	AL Lab	.12	.7	76	131	16⅝	16½	16⅝	
6⅜	3½	AM Intl				327	6⅜	5⅞	6¼	– ⅛
23½	18¼	AM In pf	2	9.4		20	21½	21¼	21¼	+ ⅛
65⅛	40⅞	AMR			8	5398	65½	63⅛	60⅞	+1⅜
27	25	ANR pf	2.67	10.		1	25⅝	25⅝	25⅝	– ⅛
24⅛	23⅛	ANR pf	2.12	8.7		1	24½	22½	24½	
6⅞	3⅝	ARX				46	4⅛	4	4⅛	
34⅞	30¼	ASA	3a	7.2		890	41⅞	40⅞	41¼	+ ½
22⅜	15¼	AVX	.24	1.2	10	203	20⅜	20⅛	20⅛	– ⅛
61⅛	43⅞	AbtLab	1.40	2.4	17	3548	58⅞	58	60	
16	15⅞	Abitibi g	1			33	16⅛	16	16½	+ ⅛
12	7½	AcmeC	.40	6.8		240	12	11⅛	12	
8	6⅞	AcmeE	.32	4.2	12	7	7⅛	7⅝	7⅜	– ⅛
34⅛	20⅛	Acuson			26	461	33⅛	32⅞	32	+ ⅛
16⅞	14¼	AdgEx	1.82e	12.		54	16⅝	15⅞	16½	
16⅞	7¼	AMD				3333	10¼	10	10⅛	+ ⅛
43½	25⅛	AMD pf	3	9.1		31	33	33	33	
16⅛	8½	Adobe				140	10	9⅞	10	– ⅛
18⅜	16½	Adob pf	1.84	10.		14	18	17⅞	17⅞	+ ⅛
21⅛	19⅞	Adob pf	2.40	11.		2	21	21	21	+ ⅛
9⅜	6⅛	Advest	.12	1.7	17	75	7	6⅞	7	
56¼	43½	AetnLf	2.76	4.9	9	764	56⅛	55⅛	56⅛	+ ⅛
14	10⅜	AflIPb	s			116	13⅞	13⅝	13⅝	– ½
23	14⅝	Ahmans	.88	3.8	11	6681	27⅛	21⅝	20⅞	+1⅜
32¼	37¼	AirPrd	1.32	3.1	11	2085	43¼	42¼	43	– ⅛
28⅛	10½	AirbFrt	.60	2.2	25	356	27⅛	27	27⅛	
[illegible]										

Continued on Page 33

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NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22¾	20½	PSCol pf2.18		9.2		14	22¾	22⅛	22⅛	+ ⅛
12⅛	10½	PSIn pfB1.04		8.2		z470	79¼	12¾	12⅛	− ⅛
93	80¾	PSIn pfG8.38		9.2		z60	91	91	91	− 7
98⅞	87½	PSIn pfH8.96		9.2		z20	97	97	97	− 7⅛
8½	3¼	vjPSNH			10	2258	4¼	4	4	− ⅛
17⅞	9	vjPSNH pf				z1800	12⅛	11½	12⅛	+ ⅛
14⅞	8	vjPNH pfB				13	71	11	11	
13¾	8⅞	vjPNH pfC				7	12¾	19⅛	12⅞	+ ⅛
13⅛	6½	vjPNH pfD				16	77½	11½	11⅞	+ ⅛
19	8⅞	vjPNH pfE				20	11½	11⅛	71⅛	− ⅝
18¾	6½	vjPNH pfG				19	11⅝	11⅛	11⅝	+ ⅝
18⅞	10¾	PSvNM .80j				1900	14½	14¼	14⅛	
28¼	22	PSEG	2.04	7.6	10	4677	u27½	26⅝	27	+ ⅜
58	51⅛	PSEG pf6.28		8.0		z6000	u58⅛	58⅛	58½	+ ½
84¾	75	PSEG pf7.70		9.2		z220	83¾	83½	83¾	+ ½
83⅞	73¼	PSEG pf7.52		9.2		z5190	82½	82¼	82⅛	+ ⅜
81	72¼	PSEG pf7.40		9.2		z2700	80¾	80	80¾	+ 1⅛
3⅞	1⅛	Publick				714	3	9⅞	2⅞	− ⅛
61¼	37	PR Cem	.65a	1.4	6	11	46¾	46½	46¾	+ ⅛
20½	18	PugetP	1.76	8.6	10	728	u20¾	20¼	20⅝	+ ⅛
8⅝	7½	PHICS	.85	71.		209	7⅞	7¾	7⅞	
10⅛	8⅞	PHYM s				414	10	9⅞	10	
10⅞	8⅞	PIGIT	1.01	11.		997	9⅜	9⅛	9⅜	+ ⅛
13⅛	9¼	PMMI	n.08e	.9		382	9⅞	9⅝	9⅞	
16	8⅞	PMIIT	1.02a	12.		605	9⅛	8⅞	8⅞	− ⅛
9⅞	8⅞	PMIT	1.10a	12.		1017	9⅞	9⅛	9⅛	− ⅛
8⅞	6⅞	PPrIT	1.14	12.		2029	9½	9⅞	9⅞	− ⅛
17⅞	8⅛	Pyro			64	534	11⅜	11⅛	11⅜	
9⅞	9	QMS				199	8⅝	8¼	8½	− ⅛
1⅞	6-16	Quanel			8	49	9-16	½	9-16	+ 1-16
65¼	49⅞	QuakrO	7.20	7.6	21	3418	u66¼	65⅞	65¾	+ 1
25	15⅞	QuakSC	.80	4.7	37	973	17¼	16¾	17	
19	11⅞	Qubnex	.52	2.7	8	424	15½	15¼	18¼	− ⅛
31¼	26⅛	Quanx pf2.26		8.4		83	27⅞	22¼	22¼	
59½	39⅞	Quantm	8	7.4	8	1429	40⅝	40¼	40½	+ ¼
18⅛	9⅞	QstVl	1.20a	10.		148	18	11⅞	11⅞	− ⅛
11¾	7¾	QstVC				457	11⅞	11	11⅞	+ ⅛
38⅞	31	Questar	1.88	5.3	26	28	35⅞	35½	35¼	
16⅞	10¾	QkReity	.24	1.9	16	123	15¼	15	15¼	

– R–R–R –

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote
40	35⅜	SourcC	3.60	9.0		14	40	39⅝	39⅞
28⅛	22½	SrcCp pf2.40		8.8		16	24⅞	24⅞	24⅞
29	26	SCrE pf2.50		9.0		4	27⅞	27¾	27⅞
28	17⅛	SoJerin	1.40	7.0	11	58	28	18⅝	20
28½	18⅛	Soudwn	.50	1.9	12	471	27	26½	26⅞
29⅛	20½	SoestBk	1.12	4.1	10	1144	27⅛	26⅞	27⅛
78	68	SoetBk pf				18	73½	18½	18½
27⅛	20⅛	SoughCo	2.14	8.6	9	8418	29⅞	28¼	28⅞
30⅛	20¼	SoinGs	1.80	6.1	10	43	29⅞	29⅝	29⅞
78¼	68⅛	SNETI	3.24	4.3	18	326	75⅛	74	18⅛
30⅞	26⅛	SoRy pf2.60		3.8		6	30⅞	30⅝	30⅝
12⅞	7	SoUnCo	.20	1.5		328	12⅞	12¼	12⅛
3⅜	7-16	Soumrk				641	½	15-32	15-32
12¼	1⅛	Somk pf				306	1½	1¼	1⅛
9	⅞	Smk pfII				27	1¼	1⅛	1¼
28¼	15¼	SwAirl	.14	.6	11	730	27⅞	27⅝	27½
21⅞	17	SwtGas	1.40	7.7	8	227	18⅛	18⅜	18⅛
84¾	28⅞	SwBell	2.60	5.0	16	5273	52⅞	81⅛	52¼
27	18⅛	SwEnr	.58	2.2	19	222	20	20½	20
28⅜	24⅞	SwPS	2.20	7.0	12	283	28	27¾	28
30⅞	30¼	Sovran	1.52	9.0	8	1319	30⅞	30¼	30⅜
12⅞	9	Spain	s.15e	1.3		273	71⅞	11⅞	11⅞
13⅞	10	Sparton	.52	8.1	36	27	10⅞	10	10⅞
14⅝	10½	Sprague	.05e	.4	21	864	11⅛	11⅛	11⅛
40¼	22	Springs	1.20	9.8	13	59	42⅞	42	42⅛
68½	40⅛	SquarD	2	8.5	16	428	57½	67¼	37½
80½	60	Squibb	2	2.5	19	2071	80	78⅞	79⅛
18½	11⅛	StBPnt			42	2049	18⅛	17¼	17⅞
22⅛	10	StalCm	s .62	3.2	10	59	18⅛	18¼	10⅛
11⅝	8⅛	StFdBk	.40	3.8	6	302	10⅞	18½	10⅞
17⅞	12⅞	StMotr	.32	1.9	22	506	18½	18⅛	18½
17½	9⅞	StdPac	1.80e	11.	8	2159	18½	16	16½
31⅞	26⅛	StdPrd	.92	3.2	9	58	28⅞	28½	28½
25½	18⅞	Standex	.64	8.5	13	30	24⅞	24⅝	24⅞
38½	17⅞	Stanhm	.68	2.2	18	709	31¼	28½	30⅝
36¼	28	StanWk	.96	8.7	14	2686	36⅛	30⅞	35⅛
26⅞	21⅛	Sterrel	s .04	2.8	8	9	22⅞	22⅞	22⅞
11⅜	8⅞	StalMSe	1.50	10.		49	10⅞	18⅞	10⅞
16⅞	8½	StrlBcp	.20	2.2	80	14	8⅞	8⅞	8
16⅞	11¼	StrlCh	n.50a	4.4	3	4980	11⅞	11¼	11⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14	10⅛	WolvrW	.16	1.2	11	199	12⅞	12¾	12⅞	+ ⅛
67¼	49¼	Wolwth	1.88	3.5	12	2723	55	54	54½	− ⅛
152	138	Wolw pf2.20		1.4		2	158	158	158	− 8
9	5⅛	WrldCp			8	48	7¾	7½	7⅞	− ⅛
17⅞	13	WrldVl	1	6.5		24	17⅛	17	17⅛	
61½	32	Wrigley	.88	1.7	26	353	46⅞	46⅝	46⅞	+ ½
1⅝	⅞	Wurlich				90	⅞	⅞	⅞	− 1-16
11¼	7⅞	WyleLb	.28	3.2	19	283	9	8¾	8⅞	− ⅛
28	19¼	Wynns	.60	2.2	13	30	27⅛	26⅞	27	+ ¼
22⅞	4½	Wyse				987	7⅛	6¾	7	+ ½

– X–Y–Z –

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
69	51¼	Xerox	3	4.7	18	5913	64	63½	64	+ ⅞
49¼	44½	Xerox pf4.10		9.2		28	45⅛	44⅞	44⅞	− ½
44¼	21	XTRA	.72	2.2	14	198	32½	32¼	32½	+ ⅛
33	29	XTRA pf1.94		7.6		292	29¼	29	29	− ⅛
6½	2	Zapata				78	8⅛	2⅞	2⅞	+ ⅛
15½	16½	Zemex	.48	6.3	130	8	12⅛	10	12	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 75% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices June 23

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
ProsCm	.05e	1	199	8⅝	8½	8½	
Prism		16	19	3½	3¼	3⅜	
ProMed	.48	10	61	3⅝	8½	3⅜	+ ⅛
ProfCre		14	142	8⅞	3⅝	8¾	

– R–R –

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
RBW		19	12	7⅞	7⅛	7⅞	− ⅛

OVER-THE-COUNTER

Nasdaq national market, 4pm prices June 23

Stock	Div.	Sales 100s	High	Low	Last	Chng
Worthg	.48	14 1001	21⅞	21¼	21½	
Wyman	.80	71 434	18¼	18¼	13¼	

–X–Y–Z–

Stock	Div.	Sales 100s	High	Low	Last	Chng
XL Dta s		10 89	23	22½	23	+ ½
XOMA		406	16½	16¼	16¼	− ¼
Xicor		9 1635	6⅛	6⅛	6⅛	
YellowF	.70	11 520	27⅞	27⅞	27⅞	+ ½
ZionUt	1.44	6	28½	28	28	− ½
Zycad		1168	3½	3	3¼	− ¼

FINANCIAL TIMES

The Business Column

Dogma and reality about exports

If economists were to be believed, currency devaluation would make a country's exports automatically more competitive. Yet, time after time over the past 25 years, that dogma has been *confounded by the poor performance* of British exports.

This was underlined once more last week, when the Confederation of British Industry reported that UK manufacturers' optimism about exports was at its lowest ebb for two-and-a-half years and that orders were weakening. Yet sterling has been devalued by nearly 8 per cent since the beginning of this year.

The fact is that economic *theory is wrong. International* trade flows between industrialised countries have been influenced more and more since the mid-1960s by factors other than price, such as design, quality, delivery and service.

This message has been promulgated noisily over the past dozen years by one official *study after another* and by several government awareness drives aimed at helping British industry learn from foreign competitors.

Yet the problem remains. To a great extent the UK persists in a pattern of "export cheap, import dear": trying to export cheap and cheerful goods while importing ones of *increasingly high quality, cost* and added value.

Part of the explanation of why it has taken so long for UK companies to take remedial action is that Britain's relatively low labour costs have misled many companies into ignoring the problem.

Even when they have recognised it, they have needed a *near-crisis, and often* a change of management, to sting them into action. The shift to German-style market and product strategies, let alone Japanese ones, requires a radical upgrading of a company's organisational capability, and a transformation of its attitude to the workforce.

Dominated by retail chains

But there are other barriers, too. Take the women's clothing industry – *the subject of a* fascinating Anglo-German comparison in last month's edition of the National Institute Economic Review.

The West Germans export small batches of high-quality dresses, in a wide array of styles, targeting them at all sorts of market segments and niches. Most of the British companies try to sell cheaper, "mass market" garments of simpler design, made in much *longer runs. There are no* prizes for guessing which strategy is better suited to exportability.

One problem, as in many other industries, is that the UK manufacturers are dominated to a far greater extent than their foreign competitors by powerful retail chains with a requirement for middle-of-the road, low-price products which do not sell well abroad. Serving such customers effectively, while constructing an export business (and, for that matter, an up-market business at home) can be such a difficult managerial task that textile companies such as Cour*taulds have* had *to set* up entirely separate subsidiaries.

Another difficulty, in clothing and elsewhere, has been the shortage of good management. Faced with intensely demanding retailers at home, companies have naturally tended to put their best managers into the domestic side of their businesses.

Then there is Britain's much-ventilated problem of a poorly educated and relatively unskilled workforce. As part of a shift to "total quality management," Courtaulds is doing much more skill-training than it used to, but is still *handicapped* by lower school education standards than in many competitor countries.

In a handful of other UK industries, companies are further ahead in upgrading internal skills and lifting their position in the marketplace through much-improved quality and service. Hotpoint, in domestic appliances, is a glowing example. But it, and many others, have yet to work the same trick on foreign markets. Until they do, British exports will continue to suffer, no matter how much sterling slides.

Christopher Lorenz

THE MONDAY INTERVIEW

The right-wing Afrikaner of Israel

Victor Mallet speaks to Ariel Sharon, Israeli Trade and Industry Minister

Mr Ariel Sharon of Israel *is* disarmingly honest in much the same way as an extreme right-wing Afrikaner in South Africa. Burly, blunt *and sentimental* about his attachment to the land, he makes no secret of his ambitions for himself and his country. Neither the aspira*tions of the* Arabs nor the sensibilities of world opinion figure large in his thoughts.

It is not *surprising that* Mr Sharon arouses strong feelings. For the Jewish settlers in the Israeli-occupied West Bank (like him, they use the biblical *names* Judaea and Samaria) he is a hero fighting for Greater Israel. For Arabs, he is a killer with Palestinian and Lebanese blood on his hands, notorious for his role as Defence Minister at the time of the 1982 Israeli invasion of Lebanon and the massacre of Palestinians in the Sabra and Chatila refugee camps by Israel's Christian allies. For many moderate Israelis and Jews he is a blunderer, responsible for ruining *Israel's reputation abroad* and sending Israeli troops to their deaths unnecessarily.

Mr Sharon, forced to resign as Defence Minister over what happened in Lebanon, has been Trade and Industry Minister for the last five years, but he has lost none of his interest in political wrangling and military campaigns. He thinks that *if he* had been Defence Minister he would have been able to snuff out the Palestinian uprising or *intifada*.

At the age of 61, he would even like to be Prime Minister. On July 5 he will challenge Mr Yitzhak Shamir, the coalition Prime Minister, at the Central Committee meeting of the right-wing Likud bloc by trying to win a vote against Mr Shamir's plan for elections in the occupied territories.

At news conferences and interviews, Mr Sharon is apt to be short on trade and long on politics, whipping out maps to prove his point that Israel needs to control the West Bank to ensure its security. "You can see I'm the only minister of trade and industry in the world that keeps maps, because I generally remember all the figures for exports and imports," he says in London, on one of his visits to Europe.

Five years in the job and a belief that Israel should reduce its dependence on US aid by increasing exports mean Mr Sharon has strong views about the Israeli economy. Israel, he insists, has much more to offer than vegetables and oranges. It needs more foreign investment and Mr Sharon believes it should play on its strengths in fields such as biotechnology, lasers and electronics, particularly in Europe where Israel's sophisticated exports have not had much impact.

"Generally speaking, the European Community and England do not buy the best products that we have, whereas we are managing very successfully to compete in American markets and other markets."

Mr Sharon is unlikely to succeed in persuading the EC to adopt legislation against the Arab boycott of Israel and *Israeli-connected companies* in the near future. US corporations have been prohibited by law from complying with the boycott for more than a decade. But he pursues his anti-boycott campaign in the belief that Israel is short of the modern business skills provided by multinationals. "Although we have very good *plants* and *generally very* successful ones," he says, "Our industry suffers from some lack of modern management and I think our overall knowledge of marketing is dull."

Ask him whether he really enjoys his trade and industry portfolio or whether he harbours other ambitions, and Mr Sharon becomes defensive. "I *am a minister who deals with* his ministry and I have found it very interesting. I think that during the last four or five years I have visited more than 400 plants, I've met hundreds of industrialists. I believe that I now know industry well in its various fields and problems . . . I have found it fascinating. It's got everything from *tactics to strategy*."

But he goes on: "If the question is 'do I like it?', the answer is positive; I do like it. If the question is whether I think that this is what I should have been doing now, at the present time, the answer is no." Mr Sharon explains that he is not eager to be Defence Minister, but "I think it would have been *important* if I *had been.* If I had, this *intifada* would not have lasted 18 months – that I can assure you. Not using *harder means*, but *different* means."

Mr Sharon may be a lover of music (it is difficult to imagine his large stubby fingers playing the violin as a child) and of the land ("my strength never came from political life, it came from my family, it came from the fields and the land and the animals and the *horses and the sheep and the* flowers and the birds") but few people believe he would have dealt softly with the Palestinian stonethrowers in the West Bank and Gaza.

PERSONAL FILE

1928 Born in Kfar Malal
1952-53 Studied law at Hebrew University
1953-57 Led 101 commando unit, known for anti-guerrilla reprisal raids
1967 Heads armoured division in Sinai which broke through Egyptian lines during six-day war
1973 Resigns from army and helps to form Likud
1977-81 Agriculture Minister in charge of settlements
1981-83 Defence Minister
1984 Minister of Trade and Industry

Like a right-wing Afrikaner in South Africa he is accused by his critics of rashness and cruelty, and admired by his followers for his brave and sin*gle-minded pursuit of victory* over the enemy. Mr Sharon is famous for having ignored orders in the 1973 war, crossing the Suez Canal and incurring heavy casualties to cut off the Egyptian Third Army. He admiringly quotes General MacArthur, who *refused to* obey President Truman's order to withdraw in Korea, as say*ing that war has* only two possibilities – either you win or you lose.

"I saw myself all the horrors *of the wars* and felt all the fears of the wars, and spent so much time in the hospitals seriously wounded several times – losing I would say almost all my friends in those years – that I understand the meaning of peace. I don't think anyone can preach to me about peace or tell me about peace. And although generals are generally suspected of liking wars I tell you from my own experience that that is not the case."

Mr Sharon fears that Israel, by trying to win the short-term public relations battle against the Palestine Liberation Organisation, may be risking defeat in the long-term war against the Arabs as a whole. Hence his rejection of Mr Shamir's plan for elections in the occupied territories, although he now couches his criticisms in the form of amendments which would fundamentally alter the plan and make it unacceptable to the Palestinians.

He despises the plan's deliberate ambiguities and wants Likud to agree that the *intifada* must be crushed *before* any peace process begins. Palestinian leaders of "terror and violence" should either not exist at all (these days he hesitates to call openly for them to be assassinated), or be exiled or imprisoned. The plan should state clearly that Jerusalem is non-negotiable and must remain the united and eternal capital of the Jewish people and the state of Israel.

Mr Sharon does not know if he will win the struggle within Likud, but he has improved his chances by narrowing his objections to two central points. "It's hard to believe that the party centre will reject for instance the paragraph about bringing to an end the terror and violence, just as it's very hard to assume that they will not accept the issue of Jerusalem."

He is nothing if not realistic about the danger he perceives for the Jewish state posed by the growing minority of Arab citizens of Israel, and about the support for the PLO in the West Bank and Gaza. "Who's going to be elected in these democratic elections? The people who are going to be elected are going to be the heads of terror and violence. We have had some difficulties dealing with them now. What will happen later when they become legitimate by steps that we are taking ourselves?"

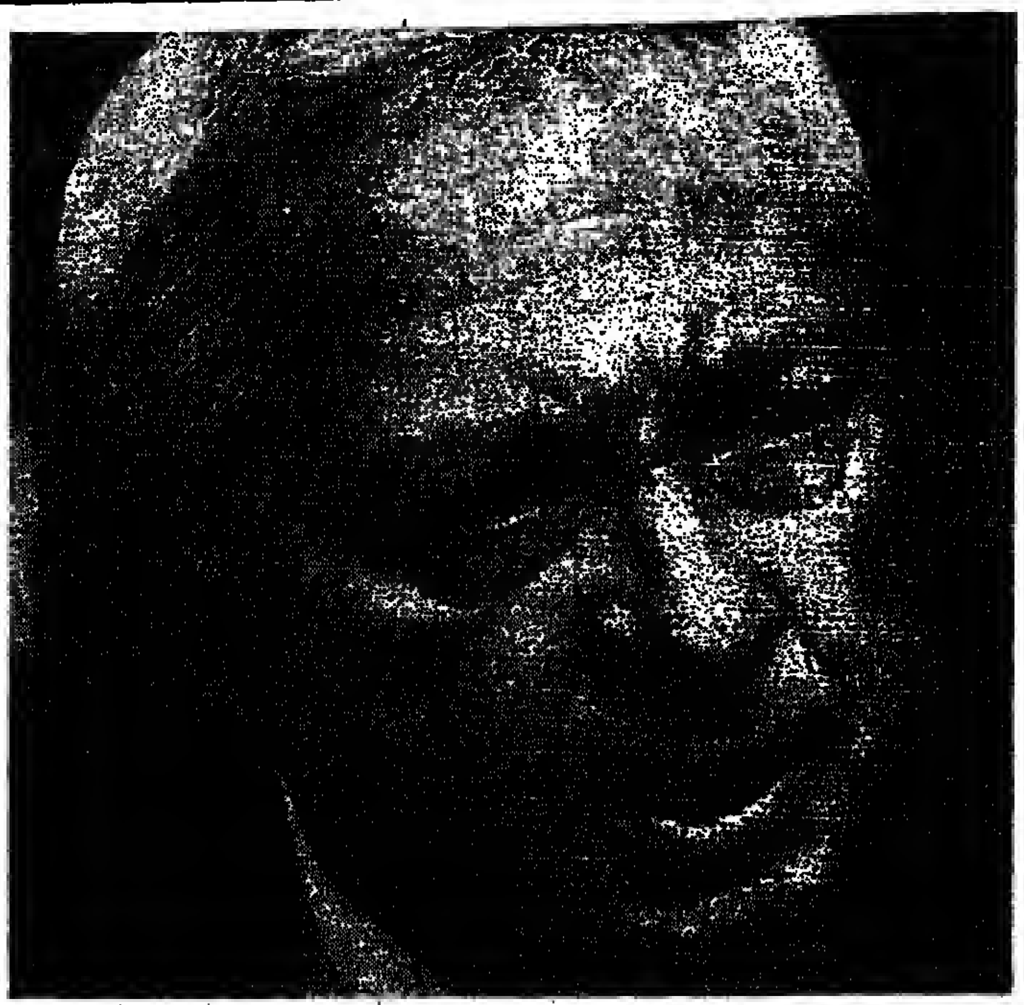
He continues: "We are not taking the necessary actions against the heads of terror now, because of American pressure, but once that is part of the agreement then everyone will understand that without that we cannot move forward . . . One of the things on which I differ in approach from some of my colleagues is whether we should say what is the target, the final outcome."

(Mr Sharon himself believes that Palestinians should pursue their political rights in Jordan, and is prepared to grant only a severely limited form of local autonomy to some of the Palestinians). "I believe that if Israel will not state it now, everywhere elections take place in the future will become a Palestinian state."

Even if Mr *Shamir's ambiguity* is an attempt to play for time rather than to reach a final settlement, Mr Sharon is adamant that honesty is the best policy. "Israel should today take the decision before this dangerous process starts – and say very clearly that's what we can do, and that's what we cannot do."

He concedes that Israel has been politically weakened by the *intifada* and the Palestinians' diplomatic offensive, but says it has used only a small part of its military power against the uprising and remains militarily strong. More serious for Mr Sharon is what he sees as the loss of Israel's will to win. "We became weaker, I agree. I hope it's temporary . . . not weaker militarily and not in our economic capacity, but we became weaker mostly when it comes to the national will, and mostly weakness of leadership. That is maybe the main problem now.

"We have to remember one thing. The Jews have been living now for 3,800 years and it's happened to our generation to live maybe in one of the most dramatic periods of Jewish history, but a generation is a short time. What can we do? It will not last forever, and one should be very careful. Being a Jew – and first of all I'm a Jew – beyond anything else, I think as a Jew that we have responsibility to what will happen to the Jews in 300 years' time from now and 3,000 years' time from now. And we have to be very careful not to take steps as a result of immediate inconvenience or pressures or public relations."



'I understand the meaning of peace'

Limits of corporate criminal liability

JUSTINIAN

The only doubt that the legal profession has entertained over a prosecution of P and O Ferries, the owners of the Herald of Free Enterprise, has focused on whether the director of public prosecution's analysis of the evidence before him about the sinking of the ship at Zeebrugge would justify putting the company on trial. The difficulty in deciding whether to prosecute lay not in any uncertainty about the law but in applying the uncovered facts of the Zeebrugge disaster to corporate *criminal liability*. When the families of the victims last year challenged in the High Court the Coroner's ruling at the inquest, the judges assumed (without deciding the point) that the ship-owners could properly face a charge of corporate manslaughter.

Any legal uncertainty which may have existed has been engendered by the comparatively undeveloped state of corporate liability, due to the lack of use by prosecutors of a well-established, if somewhat controversial, criminal offence. The *essentials of corporate* crime are tolerably clear; they have been restated in the Law Commission's recent publication, A Criminal Code for England and Wales.

The justification for convicting companies of criminal *offences of all kinds is* grounded in the notion that the acts and omissions of the company's principal officers and employees may be attributed in law to the company itself. There is no difficulty in attaching criminal liability to a *company for regulatory* (or strict liability) offences such as those dealing with health and safety. A company may be the occupier of a building from which noxious fumes are emitted in contravention of the Clean Air legislation, or its activities may cause pollution of a river under the Control of Pollution Act 1974. Like any individual person the company can be liable for the emission *or pollution without* any *fault* on its part. It is the attribution to a corporation of criminal liability for those more serious crimes involving the element of fault that takes the law into the realm of metaphysics.

The idea of affixing criminal *responsibility* to *a legal entity* like a company has been attacked on a number of grounds. *In the past the courts*, with unanimity, decided that corporations could not commit crimes. *First*, since the corporation was a legislative device and could not have a mind or soul it could not possess the criminal intent for serious crime. But recently the courts have rejected such reasoning, except to acknowledge that the law draws a notional line at an offence such as perjury which by definition can be committed *only by humans. Likewise it is* said that a company cannot be charged with murder.

A further argument for denying criminal liability for a company has been that a company can never be authorised to act unlawfully; its officers are not *authorised to do unlawful acts.* If they do act unlawfully they do so in their personal capacity and not as agents for the company. That argument had all the hallmarks of accepted legalism and bore little relation to the reality that compa*nies do sometimes act beyond* their powers. A third argument had been that companies can suffer only by the infliction of monetary penalties. As such the ultimate *infliction would* be upon the shareholders rather than on the officers responsible for the violation of the law. It is they, so the argument runs, and not shareholders, who should be punished. The location of responsibility has always presented *difficulties* in terms of law enforcement. But the courts have in appropriate cases identified the source of liability to the legal entity which encapsulates a host of acts done for its benefit.

The ingredient of fault in the more serious criminal offences is thus no bar to corporate criminality. In a leading case in 1944 a company was convicted along with 10 other individuals for a conspiracy to defraud. The defence accepted that the company could be made vicariously liable for regulatory offences involving no specific criminal intention, but argued that only directors or managers could be guilty of an *offence involving dishonesty*. The conviction of the company was upheld by the Appeal Court *on the ground that* the actions of the managing director constituted in law the actions *of the* company, and that his fraud was the company's fraud. Although there are occasionally complaints about the uncertainty of this branch of the criminal law, there is no doubt of the reality of the policy considerations that have impelled the judges to accept the doctrine of corporate personality in the criminal as well as the *civil* law.

The pragmatism of the law reflects the view that it is the company *as such* which benefits from any financial profits or savings that result from the fraud committed through its officers, or from a contravention of the laws dealing with health and safety. If no financial penalty on the company were to *flow from some grave* anti-social act there would be little reason for the company as an organisation to concern itself with securing compliance with safety regulations.

When then can a company be made criminally responsible? The *Law Commission's* code rephrases the existing rules that, for the company to become liable for an offence where fault is relevant, the prosecution *must establish* that one of the company's controlling officers, acting within the scope of his office and with the fault required, is concerned in the offence. Controlling officer is defined as a person participating in the control of the corporation in the capacity of a director, manager, secretary or other similar officer. This definition incorporates the formula used so far by the courts as the "directing mind and will" of the company.